1992

Massachusetts Port Authority Annual Report

A year ago, I began Massport's Annual Report with a statement about tough economic times. This Report for Fiscal Year 1992 must begin the same way. For while economic recovery is the top priority of every public and private leader in New England, we clearly have a long way to go.

Indeed, our shared vision is *more* ambitious than mere recovery. It is to make Greater Boston a capital of the Atlantic Rim, the center of a growing regional economy that ties the laboratories, offices, factories, farms, schools, and hospitals of hundreds of New England communities to markets all over the world.

To achieve that vision, we must modernize our economic infrastructure and expand international business—*build* our way out and *trade* our way out.

In 1991, Massport made a single-minded commitment to economic development. Last year I outlined Massport's key economic objectives. In this Annual Report, I will detail the progress that we have made with each.

The first is the safe, efficient, and productive operation of our facilities.
Our entire plan for economic development depends on doing our day-to-day job well, and just by doing so we create enormous economic benefits for the region.

As you will read in the following pages, our airport, seaport, bridge, and development facilities generated $6.4 billion in measurable "economic product." Our facilities employed over 23,000 people—barely 1,000 of them on the Massport payroll. Over 15,000 people work at Logan, some 95 percent of them in private-sector jobs.

To keep our facilities running productively, we make three firm commitments. One is to the comfort and convenience of our millions of *customers*. A second is to *public safety* on land, sea, and air. And the third is to our *neighbors*. Throughout this report you will see examples, large and small, of how strong a sense of obligation Massport feels to the communities where our facilities are located.

Our second economic objective is the completion of the Central Artery / Third Harbor Tunnel project.

No single investment means more to the future of Logan Airport and the Port of Boston than the Big Dig, which will join those facilities to the interstate highway system and to each other. In 1992, the Massachusetts Highway Department began full-scale construction of the tunnel approaches on both the airport and seaport, and recently started placing the twelve tunnel segments themselves on the harbor floor.

The orderly construction of the tunnel could not happen without Massport's complete cooperation on land assembly, engineering operations, and day-to-day problem solving. Moreover, our seaport is a prime resource in the construction process, with the dredging, barging, and tunnel tube outfitting operations all "home-ported" at Massport piers.

Our third economic objective is the modernization of Logan International Airport.

It will take a decade and at least a billion dollars of public and private investment to get Logan fully ready for the next century, but the planning stage is coming to an end and the action has begun. Our new, four-building air cargo complex is almost entirely rented. The Harborside Conference Center and Hotel—Boston's first major private commercial development of the nineties—is already a landmark and will open this year. We break ground this spring on Logan's new central fire station.

Meanwhile, we are pressing ahead with plans for rehabilitating or replacing major portions of the terminal complex and airport infrastructure systems. Our plans include a bigger and better International Terminal; the complete replacement of the aging Terminal A; consolidated parking for passenger and rental cars; an improved airport roadway network; and a people-mover system. Terminal reconstruction will get under way in 1994. A remote airport terminal at South Station and a more convenient Blue Line connection at Airport Station head the list of transportation improvements to and from Logan.

Our fourth economic objective is the revitalization of Boston's waterfront.

In 1992, we began construction on a four-year, $50 million expansion of South Boston's Conley container terminal. When this work is done, Conley will be able to accommodate two next-generation container ships simultaneously.

At the same time, Massport is taking other steps to expand port operations, from the most glamorous—recruiting more cruise ships, to the least glamorous—co-sponsoring the Army Corps of Engineers dredging project which our port needs to remain competitive. We are working closely with the Commonwealth to bring intermodal rail services to the port, a project which has already led Lykes Lines to announce Boston's first direct outbound container service to Europe.

Recently, Massport and the developers of World Trade Center Boston agreed on the terms of a major expansion, including a hotel, garage, and future office buildings. Along with the new federal court house and the MBTA's Piers Transitway Project, the World Trade Center project will lead the way to quality development and thousands of new jobs in the Fort Point Channel district.

Finally, at the old East Boston Piers, Massport is building New England's premier waterfront park.

Our fifth economic objective is the promotion of international trade and tourism.
In 1992, Massport served as home base and principal sponsor for Sail Boston, Boston's greatest civic event since the Tea Party. With six million visitors, *a half-billion dollars* in near-term impact, and a great story to tell convention planners and overseas shippers, our investment of time and money was well justified. The next great international opportunity is the 1994 World Cup of Soccer, with Foxboro as a major venue.

Massport sponsored Governor Weld's trade missions to Asia and Europe, and is co-sponsoring the Commonwealth's new trade office in Berlin. We helped dozens of small businesses attend overseas trade shows. Through cooperative advertising sponsored jointly with international airlines, Massport directed close to $1 million into the regional tourism effort. And, in November, 1992, Massport joined with Harrods of London to bring over 100 small New England companies directly into the European export market.

Massport creates all these benefits *without* any tax dollars from the Commonwealth of Massachusetts, the City of Boston, or any other local source. In FY 1992, as in every other year since Massport was created in 1956, everything we did was funded by user fee revenues, by private investment, or by federal grants. The same is true of the billion-plus dollars in construction we are planning in the coming decade.

Economies are not rebuilt overnight. But Boston, Massachusetts, and New England have the tools; we're working together; we're on the right track; and we believe in ourselves. Massport is proud to be on the team.

Alden S. Raine
Executive Director


American

OUR ENTIRE PLAN FOR ECONOMIC DEVELOPMENT DEPENDS ON DOING OUR DAY-TO-DAY JOB WELL. AND JUST BY DOING SO, WE CREATE ENORMOUS ECONOMIC BENEFITS FOR BOSTON, MASSACHUSETTS, AND NEW ENGLAND.

WORKING AROUND-THE-CLOCK TO KEEP NEW ENGLAND WORKING

Each and every day, planes arrive and depart at Logan International Airport and Hanscom Field; container vessels load and unload consumer goods at the public terminals in the Port of Boston; trade shows are held at the World Trade Center Boston; fish is sold at the Boston Fish Pier; vacationers depart from the Black Falcon Cruise Terminal; and traffic flows into and out of Boston via the Tobin Bridge.

These millions of air travelers, airlines, importers, exporters, vacationers, daily commuters, and local consumers all have one thing in common. *They are our customers.* They all depend on Massport to fill their transportation, trade, and tourism needs. And those expectations rarely go unanswered because Massport is committed to providing safe, innovative, and fiscally sound services.

The Statistics Tell the Story Despite a Tough Economy

Logan International Airport, the 12th busiest airport in the US, handled 22,060,458 passengers and moved 799,974,377 pounds of cargo and mail. At Hanscom Airfield, there were 213,342 take-offs and landings.

Over 1,000,000 tons of high-value general cargo moved through Moran and Conley Terminals, 34,560 automobiles were handled at Conley Terminal and the Massport Marine Terminal, and 85,639 tons of cement were processed at the Army Base. In addition, the Black Falcon Cruise Terminal served 18,300 cruise passengers.

The Boston Fish Pier landed 12,368,161 pounds and processed 18,552,000 pounds of fish. And the Tobin Bridge had 22,583,396 vehicle crossings. Massport moved all of these people and products, provided employment for over 23,000 people at our facilities, and generated *$6.4 billion* for the local economy. And we got it all done while carrying out a full program of safety and infrastructure improvements designed to keep operations running smoothly into the future.

Giving Today's Customers What They Want

While Massport prepares for tomorrow, the needs of *today's* passengers are our number one mission. Logan International Airport has already won a national reputation for user-friendliness. We're proud of Kidport, a unique playspace for children in Terminal C. In 1992 Kidport celebrated its fifth anniversary and was acknowledged nationally by *Child* Magazine, which voted Kidport one of the ten best playgrounds in the United States. And for kids of all ages, Massport unveiled its newly-renovated observation tower, with a spectacular view of the airfield.

We're also proud of our concession program in Terminal E, where food prices are competitive with those off the airport and where national brands share the spotlight with local favorites. But we're not resting on our laurels. In the coming year we'll be putting that same program into effect in Terminal A and Terminal C.

New concessions, in fact, are at the heart of the make-over now under way in Terminal A. In 1992, Massport bought the Terminal back from bankrupt Eastern Airlines and went right to work. Long-deferred repairs were done immediately. Cracked windows and old carpeting were fixed. The USAir Shuttle and Continental moved to more attractive gate areas.

And a new concession plan has been launched, which will provide travelers with a Cheers Bar, Legal Seafoods, an attractive food court, and a new bookstore. By the summer of 1993, Terminal A passengers will have the choice of better concessions, at good prices, in a far nicer terminal.

In 1992, we also began plans for a make-over of Logan's Central Garage. We want a facility that is lighter, more hospitable, easier to navigate—and that's exactly what our passengers want.

Safety First Spells Future Security

At Massport's other passenger facility, the Black Falcon Cruise Terminal, attention to customer convenience and comfort is no less a priority. Regardless of the weather, cruise travellers enjoy protected access to and from their vessel via Massport's enclosed self-leveling gangway. While waiting, they can utilize the terminal's three cheerful passenger lounges, escalator and elevator service, luggage lockers, restrooms, protected drop-off areas, public telephones, and secure long-term parking.

Logan Airport is one of the world's best and safest airports, and Massport is committed to keeping it that way. That commitment begins with a resource Massport hopes never to use—the Logan Airport Fire Department. This year Massport begins construction on a new $12 million airfield rescue and fire fighting complex that will dramatically reduce response time in emergencies. The Massport fire fighting force has increased by fifty percent in two years. We are about to purchase $1 million in new emergency equipment and vehicles, and are offering the use of our training facility to all 32 towns in the Metro Mutual Aid Fire District.

Passenger safety has been further enhanced thanks to a new state-of-the-art "keycard access" system. By restricting access to the airfield through a computerized personal identification process, Massport is doing everything it can to make sure that no unauthorized individual gets near an airplane.

At Hanscom Field, the focus is on making sure that small aircraft have the best landing facilities possible in a general aviation airport. A comprehensive program to upgrade airfield runway and lighting systems is making a good airport even better.

Massport's biggest public safety success story in 1992, however, was Sail Boston. The city's largest public event ever was also the safest ever, the result of a comprehensive land, sea, and air action plan. From coordinating the parade of sail at Logan's tower, to integrating over 24 public safety agencies at the Black Falcon Cruise Terminal command center, to the impeccable work of our State Police troopers on the streets, Massport helped to make Sail Boston a trouble-free week for over six million people.

Over the past decade Massport has tried very hard to balance the needs of large scale transportation and development facilities with those of neighboring communities. This is a daily challenge affecting our relations not only with East Boston, South Boston, Chelsea, Revere, Winthrop, and Charlestown—but with communities from Swampscott to Hull and from Bedford to Quincy.

Sound Ideas

Logan Airport's unique location—a stone's throw from downtown Boston—is a bonus for travelers and shippers, but a headache for residential neighborhoods. Homes surround Logan Airport on *three sides*. But Massport, with one of the most aggressive noise abatement programs in the country, has mitigated the effects of noise through strong regulations and successful noise reduction programs.

- Over 1,900 dwelling units in East Boston and Winthrop have benefitted from Massport's sound insulation program, as well as 33 schools in East Boston, Winthrop, South Boston, and Chelsea. We are preparing to double the pace of this program.

- Logan Airport's Noise Rules far exceed the national standards enacted by Congress in 1990. In 1992, the use of Stage 3 aircraft, the quietest in operation, represented *63 percent* of all operations at Logan. Federal regulations, by contrast, require a 55 percent Stage 3 share by 1994.

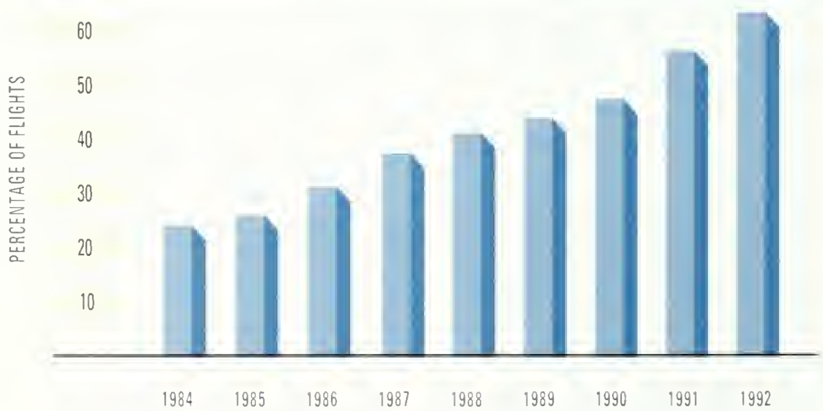
- The Airport Noise Monitoring System is now operational. After a year of testing and refining, the network of 36 microphones, 29 around Logan and seven around Hanscom Field, has begun to measure noise from overflights and other airport operations. The data is returned to central computers at Logan and Hanscom for analysis, leading in turn to even better noise abatement programs.

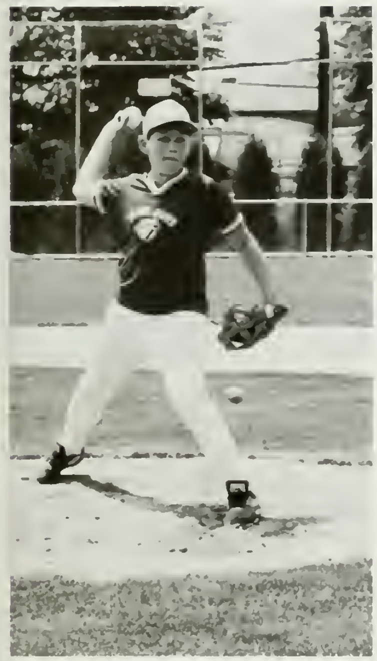
The "Greening" of East Boston

Massport's promise of a "greenbelt" of parks and open space around the airport made dramatic progress in 1992 with the successful renovation of a ballfield; a groundbreaking for a waterfront park; and an unusual tree planting program.

Community residents and Little Leaguers celebrated the opening of a $350,000 ballfield restored by Massport last summer. In doing so, Massport fulfilled a long-standing commitment to provide recreation space lost to East Boston during an earlier era of Logan expansion. Eastie kids have a home field that is the best in the City of Boston.

Logan's Stage Three Aircraft





On the waterfront, Massport broke ground on the East Boston Piers Park, soon to be one of the largest oceanfront parks ever built on the eastern seaboard. Massport's $14 million investment will transform two underutilized and dilapidated waterfront piers into a vibrant recreational facility for Boston residents of all ages. Phase I is scheduled to be completed in the spring of 1994.

Through a cooperative program with the City of Boston Parks and Recreation Department, Massport committed $25,000 to underwrite the cost of planting 170 shade trees in East Boston, an effort that has evoked much enthusiasm from local residents. And it's just the first installment.

Summer in the City

A great way to create jobs *and* be a good neighbor is to put community youth to work, and that's what Massport did last summer through two successful programs: the Massport Summer Jobs Program, and the Community Summer Jobs Program. Together these two efforts provided 303 summer jobs for local students, many of whom were self-supporting and from the neediest impacted communities. While many businesses were forced by the economy to reduce summer job opportunities, Massport was able to help fill the void by increasing its programs for the second year in a row.

Massport provided $684,000 for 143 positions at Massport facilities (the Massport Summer Jobs Program) and an additional 160 positions at 30 social service agencies in communities impacted by Massport's operations (the Community Summer Jobs Program). Better yet, every community job means summer camp or other benefits for neighborhood residents served by local agencies.

Chelsea/Massport Partnership

In 1992, Massport made a commitment to Chelsea, the home of the Tobin Bridge, and we kept it. First, we agreed to advance $5 million in future in-lieu-of-tax payments to help the city through the toughest of financial times. Second, we pledged to create tax-paying airport and seaport development on the city's waterfront. That is precisely what Massport did when we forged an agreement with the developers of a new Chelsea garage for 1,500 airport employees who will ride a shuttle bus to Logan. The garage will be one of the biggest taxpayers in Chelsea— approximately $500,000 per year—while cutting traffic and pollution in East Boston. Massport will continue to work with Chelsea's new leadership to encourage business growth that works for both of us.

No single investment means more to the future of Logan Airport and the Port of Boston than the "Big Dig," which will join those facilities to the interstate highway system and to each other.

Seeing the Big Picture on the "Big Dig"

As the owner and operator of the region's major international transportation and trade facilities—Logan International Airport and the public terminals in the Port of Boston—Massport has long realized that not only must its facilities be the *best* but they must also be the most *accessible*. That's why the Authority has been a full partner with the Mass Highway Department in the Central Artery/Third Harbor Tunnel project, using all the resources at our disposal to help keep the project on the move.

In 1992, after years of cooperative planning, tunnel construction begun in earnest. Now our challenge, day in and day out, is to keep the twelfth busiest airport in the US and New England's number one seaport working safely and efficiently—while a sister agency builds an interstate highway right through both facilities! Massport is completing a series of property transfers in both East Boston and South Boston to facilitate the Highway Department's construction of tunnel approaches on both sides of the harbor. We've relocated an airplane hangar, air cargo operations, and automobile import operations. And together, we're proving that airplanes, ships, and earth-movers can get their work done and stay out of each other's way.

Nuts and Bolts

Massport's South Boston piers are now servicing some of the most critical operations for the Central Artery/Third Harbor Tunnel project. From dredging and barging to tunnel tube outfitting, the seaport has played an important role in helping this massive roadway project to take shape.

When it comes to close cooperation with a major regional highway project, Massport has *already* shown it can do the job—through our modernization of the Tobin Bridge. Key construction projects on the Bridge, including redecking the upper level, repaving the lower level, and replacing the original toll plaza and toll collection system, are concluding simultaneously, on time, and under budget.

Equally important, the Bridge work was carefully coordinated with the Mass Highway Department's Central Artery North Area Project in City Square—the massive construction project which joins the Bridge to I-93 and the Charlestown street network. When the state work is done, our collaborative effort will ease commuting woes for Boston-bound drivers and set the stage for the entire northern portion of the Big Dig.

Logan: The Future is Now

It will take a decade and at least a billion dollars to get Logan fully ready for the next century, but the planning stage is coming to an end and the action has begun.

Logan Airport: An Economic Powerhouse

Moving 22 million passengers and 400,000 tons of cargo annually, Logan is the twelfth busiest airport in the country for passenger service, the fourteenth for cargo service, the eighteenth busiest overall in the world, and America's fourth-ranked gateway airport to Europe. In the decade preceding the current recession, Logan's passenger volume grew by 5 percent a year, and assuming any level of economic recovery at all, passenger and cargo growth are sure to resume through the 1990s and beyond. To ensure a healthy New England economy in the next century, a modern international airport is an indispensable prerequisite.

Creating a 21st Century Airport and Thousands of New Jobs

The Logan Modernization Program is one of the largest and most important public infrastructure programs in the history of New England. It is comparable in visibility and economic impact (although not in cost) to Boston's two mega-projects, the Artery/Tunnel and the Harbor Cleanup. A billion-dollar package of passenger terminal, airport infrastructure, and regional transportation projects, Logan's modernization will create a more efficient airport, make better use of limited space, and prepare Logan to support the regional economy well into the 21st century. Several milestones were reached in 1992 as planning turned to action:

- Four newly-constructed cargo buildings, totalling more than 300,000 square feet, were completed in the Bird Island section of the airport. These new cargo facilities were developed to replace aging buildings demolished for the construction of the Third Harbor Tunnel. Federal Express is a major tenant, occupying 119,000 square feet. Other tenants include British Airways, Continental, United and USAir.
- The $40 million Harborside Conference Center and Hotel represents the first dramatic change in the Logan landscape. The fourteen story building on Bird Island Flats is nearly complete. When it opens in May, the hotel will feature extensive meeting space, 270 guest rooms, food service, and a fitness center. Not only does this development provide immediate construction jobs, long-term employment opportunities will be generated by the completed facility and by those who use its services.

Making Logan Better Not Bigger

The environmental review and permitting process for the modernization program is under way, and as the projects move toward final design, Massport is implementing a financing strategy for the major airport construction projects, which include:

- An expanded International Terminal E with more room, greater passenger convenience, and more efficient operations.
- A new Customs facility on the site of the current Terminal E parking lot. This new customs hall will be able to handle 3,000 international passengers per hour.
- A complete replacement for the aging and outmoded Terminal A, creating a modern concourse of 14 wide-body gates.
- A new central terminal and garage complex connected by a people-mover to Terminals A and E.
- A new, environmentally safe airplane fueling system to replace Logan's 20-year old fuel lines and tanks.

All of these improvements will occur *without expanding airport boundaries or runways, and without any state or local tax dollars.*

The Easier Way to the Airport

Improving the terminal area is only one side of the modernization program. The other side involves a network of ground access improvements that will relieve local traffic congestion while providing passenger convenience and environmental benefits.

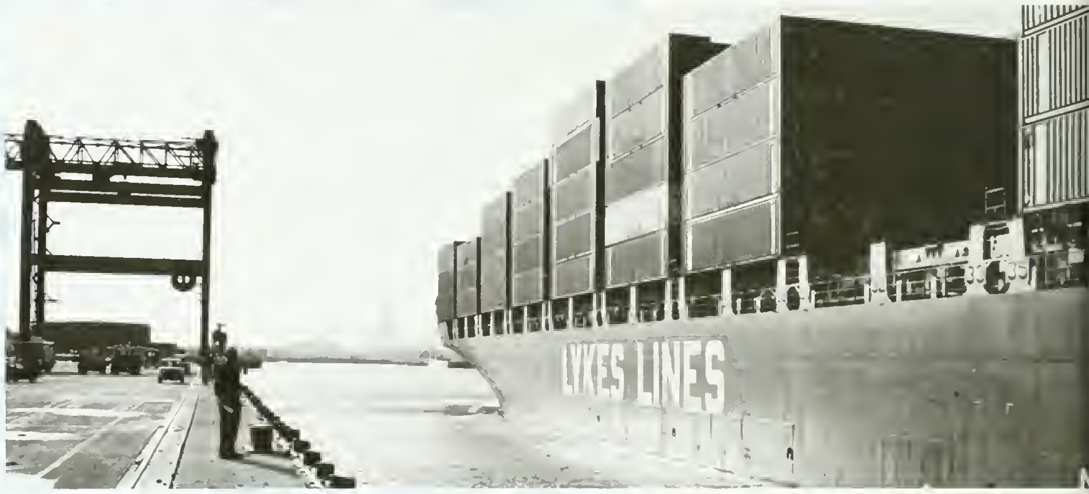
A new roadway system that connects with the Third Harbor Tunnel project will be wider, longer, and much easier to use. It will increase safety by spreading driver decision points over a greater distance, make terminal curb operations more efficient, and encourage the use of high occupancy vehicles.

A New Flight Track

In 1992, Massport joined the MBTA in breaking ground for a unique "one stop" airport terminal at South Station. From this convenient downtown location, easily accessible by commuter rail, T, or bus, passengers will be able to buy tickets, check their bags, and take a designated bus through the new tunnel directly to their airline terminal.

In the meantime, Massport has continued to add to its network of reliable, hassle-free, and environmentally sound ground access programs. In 1992, Massport added a new Logan Express Bus Service from Woburn, following successful models in Braintree and Framingham; provided a new Logan Link shuttle bus service to and from South Station; and continued to support the Airport Water Shuttle to and from Rowes Wharf. Free handicapped van service is offered between terminals, and free bus service is provided between the Airport T Station and all terminals. A public information program using billboards, radio, and other promotions helps to inform travelers about their Logan transportation options.

It is Massport's responsibility to ensure that each and every traveler can get to the airport, move through the terminals, and get up in the air quickly, conveniently, and safely. Through modernization, Logan Airport will be able to handle more travelers, and the New England economy will be able to grow and prosper.


LYKES LINES

MASSPORT'S STEWARDSHIP OF THE WATERFRONT MUST BALANCE

INTERNATIONAL TRADE OPPORTUNITIES WITH LOCAL NEEDS...

A VIBRANT WATERFRONT INCLUDES WORKING SEAPORT FACILITIES,

AS WELL AS EXCITING COMMERCIAL AND RECREATIONAL DEVELOPMENT.

Preserving the Past, Forecasting the Future

Boston's waterfront is one of the region's most precious resources and Massport's waterfront properties serve a wide variety of uses. Whether it's the container terminals that export New England products to ports around the world, the commercial developments that provide jobs and services, the Boston Fish Pier and Boston Marine Works that helped save two maritime industries in Boston Harbor, or the new parkland that enriches surrounding communities, Massport considers the waterfront one of its highest priorities.

Investing in Global Trade

As the world gets smaller and the Atlantic Rim gets bigger, New England is perfectly positioned to acquire a bigger piece of the trade pie. The Port of Boston is one day closer to Europe than any other US seaport. That's why Massport is investing today in important intermodal infrastructure.

At Conley Terminal, a four-year, $50 million capital investment program is well underway. When completed, the terminal will be able to handle two of the largest container ships in the world simultaneously, through doubling the berth space, raising the two current container cranes 20 feet each, expanding the backland storage area, and installing two additional post-Panamax cranes.

Nineteen-ninety-two was also a year of *intermodalism,* as port planners addressed the challenge of moving waterborne cargo into and out of the surface transportation system.

An exciting new proposal to provide direct rail service from Moran Terminal to the Midwest and Canada through a distribution center at Fort Devens was announced by Governor Weld, Massport, and a consortium of Canadian Pacific and Guilford Transportation. And we are helping the Commonwealth develop plans to bring double-stack container rail service to both the Guilford and Conrail systems, serving our terminals in both Charlestown and South Boston.

Meanwhile, Massport and the U.S Army Corps of Engineers are hard at work on a harbor dredging project. Now in the design phase, it will deepen Boston's major shipping channels so they can accommodate the increasingly larger vessels expected to be in the commercial fleets of the future.

Common Sense Coexistence

The resurgence of Boston's waterfront requires a balance of maritime development with the creative reuse of obsolete properties.

A decade ago, Commonwealth Pier was an all-but-abandoned monument to the shipping technology of another era. Today, it houses the World Trade Center Boston, a focus for international trade activities and exhibitions, a home for 2,000 jobs, and a great example of private development in the public interest. Massport worked throughout 1992 with the World Trade Center developers to plan Phase II, which will include a hotel, garage, and future office buildings.

When Commonwealth Pier became the World Trade Center, Massport replaced what was left of Boston's cruise ship terminal with an investment that seemed visionary at the time—the Black Falcon Cruise Terminal at the old South Boston Army Base. In 1992, that investment paid off.

The cruise business is enjoying a renaissance in Boston, the result of Massport's aggressive marketing and promotion of the port as one of the best calls ever for oceangoing cruise vessels on the US East Coast/ Canadian, Bermuda, and transatlantic itineraries. This year, the cruise business pumped nearly $11 million into the regional economy.

And it was at the Black Falcon Cruise Terminal that close to one million people a day came to see the largest number of Tall Ships and got their best view of the working port during Sail Boston.

The East Boston Piers, another underutilized and decaying waterfront facility is getting a new—yet very different—lease on life. Its centerpiece, the East Boston Piers Park, will provide East Boston residents and families throughout greater Boston with one of the most beautiful and largest waterfront parks ever built. But the piers will also provide a home base for traditional waterfront industries such as lobstering, tugs, and pilot boats.

MASSPORT SERVED AS HOME BASE AND PRINCIPAL SPONSOR FOR SAIL BOSTON. WITH SIX MILLION VISITORS AND A HALF BILLION DOLLARS IN ECONOMIC IMPACT, MASSPORT'S INVESTMENT OF TIME AND MONEY WAS WELL JUSTIFIED.

A World of Developing Opportunities

Logan International Airport, the Port of Boston, and the World Trade Center Boston are centers of international business activity for our state and region. Promoting international trade and tourism is widely recognized as one of the best ways to get our economy back on track. Massachusetts has a wealth of resources to share: history, culture, and leading edge computer and biotechnology, plus software, higher education and medical facilities. Massport's challenge is to bring those resources and their overseas markets together. In FY 1992, for the second year in a row, Massport undertook a multi-million dollar program of international trade and tourism initiatives.

Trading Up

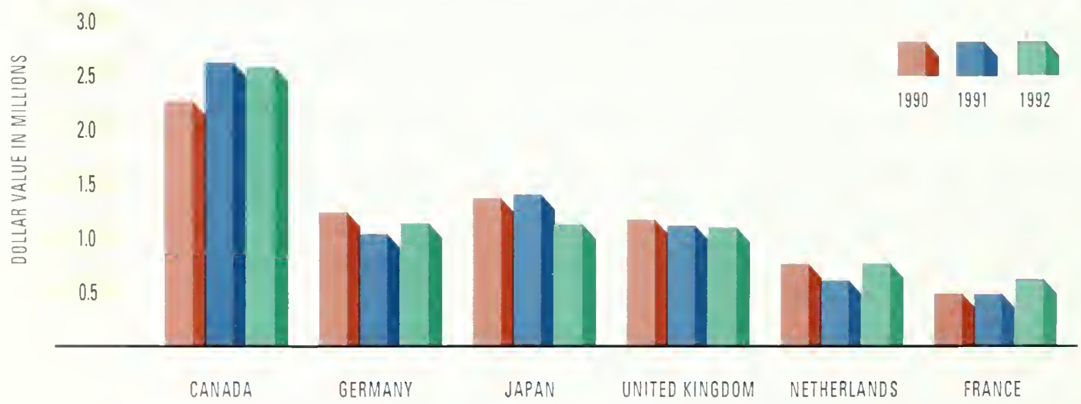
In FY92 Massport's Trade Development unit helped more than 700 companies land over $20 million in overseas sales. The department recruited companies for 12 trade shows, ran educational and outreach programs, and coordinated foreign trade missions. The unit led more representatives of these companies overseas and hosted more foreign buyers and business delegations in Boston than any previous year. Offices in London and Tokyo provided invaluable service to New England firms, while Massport expanded its overseas presence with a new Massachusetts office in Berlin and added a network of trade representatives in Taiwan, Singapore, and Mexico City.

These efforts paid off—in more air and sea cargo, in growing exports, in higher company earnings, and in new jobs all over New England.

It was a busy year with significant results:

- Massport sponsored Governor Weld's trade missions to Germany/France and Mexico; and Lieutenant Governor Cellucci's trade mission to Italy/Spain.
- Massport coordinated a New England Christmas promotion at London's Harrods department store which netted the purchase of nearly $4 million worth of products manufactured at New England based companies.
- New England environmental technology firms project $5 million in sales to South America following Massport-led trade delegations to Mexico City and Sao Paulo, Brazil.
- Massport organized the participation of local companies at trade shows in Toronto, Canada; Kobe, Japan; Turin, Italy; Cologne, Germany; the UK; Latin America; Spain; Austria, Belgium, Bahrain and Taiwan; and organized sales missions to Asia, Egypt, and Eastern Europe.
- The Trade Development Unit launched its third annual Evening Export School. Eighty-two managers of local manufacturing companies attended—the highest enrollment since the program's inception in 1990.
- Soon, New England companies will have the world at their fingertips, with a new computer information system called ACCESS. ACCESS will enable a small manufacturer to find out which countries are the largest importers of its product, allowing them to target marketing efforts.

Massachusetts Exports: Top Markets Performance



Tourism: A $12 Billion Industry

Tourism is Massachusetts' second-largest industry, a $12 billion job machine. Logan Airport and the Black Falcon Cruise Terminal are gateways for millions of tourists who visit the region annually. Last year, Logan Airport served over 11 million arriving passengers—5.3 million of whom were visitors.

The Black Falcon Cruise Terminal welcomed an additional 9,000 visitors. Local expenditures by these tourists have been estimated at nearly $2.1 billion for the year.

International passenger activity at Logan peaked at an all time high last summer, establishing Boston as one of the fastest growing destinations for European travelers. Logan was the international gateway in the summer of 1992 for more than one-half million transatlantic visitors to New England—a 12 percent increase over 1991.

Why? Massport worked closely with the Massachusetts Office of Travel and Tourism and the Greater Boston Convention and Visitors Bureau. In 1992, we aggressively marketed New England as a travel destination, committing over $1 million to joint advertising campaigns with major airlines in the UK, Germany and Japan. The advertising alone netted 11,000 inquiries on New England vacations in the UK, and 5,000 in Germany. Three Japanese tour companies doubled the number of tour packages sold which included longer stays in New England.

A Year of International Events

Sail Boston attracted nearly six million people to the waterfront. As Boston Harbor welcomed the greatest flotilla of sailing ships ever viewed in New England, Boston's maritime history and hospitality were showcased to the world.

As a principal organizer of the event, it was at Massport facilities that most of the action took place. With nearly two years of advance preparation and hundreds of staff participating, Boston's working waterfront strutted its stuff for a week long event that netted Boston nearly a *half billion dollars.*

In the fall, Massport helped sponsor the Japan Festival in Boston, the largest Japanese cultural event ever held in the city. Demonstrating many traditional arts and crafts rarely seen outside of their native Japan, nearly 700 top performers treated area audiences to a weekend of unparalleled entertainment.

Massport is playing an active role in the local planning effort for the 1994 World Cup of Soccer, a major international event which is expected to attract millions of visitors from around the world.

Massport is proud of the special role it plays in promoting trade and tourism and will continue to find new overseas markets for Massachusetts products and services, and in attracting more international visitors to our region.

Sail Boston reminded everyone of Boston's glorious traditions, and Massport was proud to welcome the Grand Regatta to the place we call home: the Port of Boston. For centuries, the magnificent Tall Ships carried people and goods to every corner of the globe. That's an achievement that Massport can truly appreciate, because it's something we do every day.

MASSPORT BOARD MEMBERS

The Massport Board consists of seven members appointed by the Governor of Massachusetts to staggered terms of seven years each. Members serve without compensation.

Richard A. Giesser, chairman, is a management consultant. Term expires 1995.

John A. Vitagliano is tunnel superintendent for the Massachusetts Turnpike Authority. Term expired in 1992.

Charles M. Raso, vice chairman, is the business manager of the Bricklayers and Allied Craftsman Union, Local #3, in Boston. Term expires 1993.

Jacquelyn R. Smith is the financial manager of Bicknell & Smith, a law firm in Cambridge, Massachusetts. Term expires 1994.

Carolyn P. Partan is a real estate attorney at the Boston law firm of Hale and Dorr. Term expires 1996.

Frederick P. Salvucci is a principal research associate at MIT's Center for Transportation Studies. Term expires 1997.

Paul W. Cronin is president of Highline Industries, Inc., a manufacturing company headquartered in Lawrence, Massachusetts. Term expires 1998.

James H. Carangelo is president of Business Planning Associates, an employee benefit sales and consulting firm. Term expires 1999.*

*Mr. James H. Carangelo replaces Mr. John A. Vitagliano whose term expired in June, 1992.

Report of Independent Public Accountants

To the Members of the Massachusetts Port Authority:

We have audited the accompanying balance sheets of the Massachusetts Port Authority (a public instrumentality of the Commonwealth of Massachusetts) as of June 30, 1992 and 1991 and the related statements of income, changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Massachusetts Port Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Port Authority as of June 30, 1992 and 1991, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

September 15, 1992

Balance Sheets

June 30, 1992 and 1991

ASSETS	**1992**	**1991**
	(in thousands)	
Cash and cash equivalents (Notes A and C)	$ 9,726	$ 11,621
Investments (Notes A and C)	12,360	2,307
Accounts receivable, net of allowance for doubtful accounts of $9,655 and $7,669 in 1992 and 1991, respectively	18,589	16,183
Accounts receivable - grants (Note A)	16,084	11,345
Prepayments and other assets, net	12,062	12,143
Assets whose use is limited, including cash and cash equivalents of $14,200 and $22,903 in 1992 and 1991, respectively (Notes A, C, and G)	272,487	306,825
Investment in facilities (Notes A and D):		
Facilities completed	1,028,315	987,380
Less accumulated depreciation	(452,297)	(422,492)
	576,018	564,888
Construction in progress	132,437	96,805
Net investment in facilities	708,455	661,693
Total Assets	$1,049,763	$ 1,022,117
LIABILITIES AND FUND EQUITY		
Liabilities		
Accounts payable and accrued expenses (Note G)	$ 30,602	$ 32,399
Accrued compensated absences (Note A)	6,608	6,064
Accrued pension cost (Note F)	3,336	3,787
Accrued interest payable	17,575	17,781
Funded debt (Note E)	457,785	464,083
Total Liabilities	515,906	524,114
Deferred income	3,710	2,058
Contingent liabilities and commitments (Notes H and J)		
Fund Equity (Notes A and B)		
Accumulated fund equity	439,965	425,173
Contributed capital, grants-in-aid of construction	90,182	70,772
Total Fund Equity	530,147	495,945
Total Liabilities and Fund Equity	$1,049,763	$ 1,022,117

The accompanying notes are an integral part of these financial statements.

For the years ended June 30, 1992 and 1991

	1992	1991
	(in thousands)	
Revenues (Note B):		
Tolls, fees and sales of services	$ 112,862	$ 110,773
Rentals (Note K)	49,409	44,046
Concessions (Note K)	25,511	22,388
Income on investments (Note A)	14,158	17,583
Other (Note L)	5,465	5,049
Total Revenues	207,405	199,839
Expenses (Note B):		
Operations and maintenance	77,328	78,832
Administration	36,866	31,101
Insurance	4,087	2,471
Pension costs (Note F)	2,586	2,339
Interest (Notes A and H)	26,604	24,990
Payments in lieu of taxes (Note I)	11,533	6,528
Provision for uncollectible accounts	2,392	5,677
Depreciation and amortization, including $4,046 and $3,890 in 1992 and 1991, respectively, on assets acquired with contributed capital, grants-in-aid of construction (Note A)	35,263	33,982
Total Expenses	196,659	185,920
Net Income	$ 10,746	$ 13,919

The accompanying notes are an integral part of these financial statements.

Statements Of Changes In Fund Equity

For the years ended June 30, 1992 and 1991

	Accumulated Fund Equity	Contributed Capital, Grants-in-Aid of Construction	Total Fund Equity
		(in thousands)	
Balance, June 30, 1990	$ 407,364	$ 67,209	$ 474,573
Net income	13,919	—	13,919
Contributed capital, grants-in-aid of construction (Note A)	—	7,453	7,453
Transfer of depreciation to contributed capital	3,890	(3,890)	—
Balance, June 30, 1991	425,173	70,772	495,945
Net income	10,746	—	10,746
Contributed capital, grants-in-aid of construction (Note A)	—	23,456	23,456
Transfer of depreciation to contributed capital	4,046	(4,046)	—
Balance, June 30, 1992	$ 439,965	$ 90,182	$ 530,147

The accompanying notes are an integral part of these financial statements.

For the years ended June 30, 1992 and 1991

	1992	1991
Cash Flows From Operating Activities:	(in thousands)	
Cash received from customers	$ 188,655	$ 173,015
Cash payments:		
To vendors for goods and services	(73,290)	(62,244)
To employees for services	(47,420)	(45,079)
Payments in lieu of taxes	(11,533)	(6,528)
Net cash provided by operating activities	56,412	59,164
Cash Flows From Capital And Related Financing Activities:		
Grants-in-aid of construction	13,969	4,252
Acquisition and construction of capital assets	(75,023)	(80,530)
Proceeds from sale of revenue bonds	—	90,935
Principal paid on funded debt	(6,355)	(5,965)
Interest paid on funded debt	(34,981)	(30,976)
Net cash used for capital and related financing activities	(102,390)	(22,284)
Cash Flows From Investing Activities:		
Purchases of investments	(1,290,113)	(1,368,739)
Proceeds from sale and maturities of investments	1,310,767	1,327,487
Interest on investments	14,726	17,444
Net cash provided by (used for) investing activities	35,380	(23,808)
Net Increase (Decrease) In Cash And Cash Equivalents	(10,598)	13,072
Cash And Cash Equivalents, At Beginning Of Year	34,524	21,452
Cash And Cash Equivalents, At End Of Year	$ 23,926	$ 34,524
Noncash Activities:		
Disposal of fully depreciated building (Note H)	$ 4,900	$ —

The accompanying notes are an integral part of these financial statements.

For the years ended June 30, 1992 and 1991

Reconciliation of net income to net cash provided by operating activities:	1992	1991
	(in thousands)	
Net income	$ 10,746	$ 13,919
Less: income on investments	(14,158)	(17,583)
Add: interest expense	26,604	24,990
Add: loss on sale of equipment	—	129
Operating income	23,192	21,455
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	35,263	33,982
Provision for uncollectible accounts	2,392	5,677
Change in assets and liabilities:		
Increase in accounts receivable	(4,797)	(3,890)
(Increase) decrease in prepaid expenses and other	696	(3,988)
Increase (decrease) in accounts payable and accrued expenses	(2,079)	5,523
Increase in accrued compensated absences	544	636
Decrease in accrued pension cost	(451)	(426)
Increase in deferred income	1,652	195
Total adjustments	33,220	37,709
Net cash provided by operating activities	$ 56,412	$ 59,164

The accompanying notes are an integral part of these financial statements.

The Massachusetts Port Authority (the Authority) is a public instrumentality created by an act of the Legislature (the Enabling Act) of the Commonwealth of Massachusetts (the Commonwealth), effective June 21, 1956. The Authority controls, operates and manages Boston-Logan International Airport (Logan Airport), Hanscom Field, Maurice J. Tobin Memorial Bridge (Tobin Bridge) and other facilities in the Port of Boston. The Authority has no stockholders or equityholders. The provisions of the Enabling Act and the 1978 Trust Agreement (the Trust Agreement) with the Authority's bondholders govern the disposition of cash revenues to the various funds established under the Trust Agreement and restrict the use of such revenues credited to the various funds.

A. Summary of Significant Accounting Policies:

These financial statements have been prepared in conformity with generally accepted governmental accounting principles.

(1) Assets Whose Use Is Limited

The balance sheet caption, "assets whose use is limited," represents restricted or trusteed assets under the Trust Agreement that are earmarked to fund certain activities of the Authority such as construction of new facilities and debt service. Assets to fund deferred compensation are included under this caption (See Note C).

(2) Statements of Cash Flows

For purposes of the statements of cash flows, the Authority considers all highly liquid investments (including assets whose use is limited) with a maturity of 30 days or less when purchased to be cash equivalents.

(3) Investments

Investments in U.S. Government securities are recorded at amortized cost, which approximates market value including accrued interest. Investments in repurchase agreements are recorded at cost including accrued interest.

(4) Self-Insurance

The Authority, as mandated by the Trust Agreement, maintains a self-insurance account within the operating fund. The Authority is partially self-insured for certain major catastrophe-type risks in excess of established insurance limits. Investments used to fund self-insurance claims are included within "assets whose use is limited" in the accompanying balance sheets. (See Notes C and J).

(5) Investment in Facilities

Facilities are carried at cost and include the expenditure of federal grants-in-aid of construction and the cost of significant renewals and betterments. Federal grants-in-aid of construction are recorded as contributed capital as earned and amortized on the straight-line method over the service lives of the related assets. Expenditures for repairs and maintenance are charged to expense as incurred.

A. Summary of Significant Accounting Policies, continued:

(6) Depreciation
Depreciation is provided on the straight-line method based on estimated useful service lives of the related assets beginning in the fiscal year of acquisition or during completion of construction. Depreciation is computed on facilities which are recorded in the accounts of the Authority, including those financed by grants-in-aid of construction.

(7) Interest Capitalization
The Authority capitalizes certain interest associated with the cost of restricted tax-exempt borrowings, less any interest earned on temporary investment of the proceeds of those borrowings during the period of construction. Interest expense of $8,171,000 and $9,344,000, reduced by interest income of $3,840,000 and $6,883,000 for the years ended June 30, 1992 and 1991, respectively, has been capitalized as a part of the cost of construction projects.

(8) Accounting for Compensated Absences
The Authority accrues for vacation and sick pay when it is earned. The liability for vested vacation and sick pay is reflected in the accompanying balance sheets under the caption "accrued compensated absences."

(9) Financial Statement Reclassification
Certain accounts in the June 30, 1991 financial statements have been reclassified to conform with the June 30, 1992 presentation.

B. Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the Trust Agreement:

The provisions of the Enabling Act and the Trust Agreement with the Authority's bondholders prescribe certain accounting practices to be followed in maintaining the accounts and records of the Authority.

Under the Trust Agreement, monthly cash revenues of the Authority, after providing for required debt service costs on the Revenue Refunding Bonds, Series 1978, from pledged revenues, are transferred to the Operating Fund. After providing for operating expenses, including pension expense and transfers to the self-insurance account, cash revenues are then transferred to the Interest and Sinking Fund (which are applied to debt service on any outstanding bonds other than the Revenue Refunding Bonds, Series 1978), the Maintenance Reserve Fund, the Payment In Lieu of Taxes Fund and the Improvement and Extension Fund. Cash and investments held in the Improvement and Extension Fund, to the extent designated by the Authority, are transferred to the Capital Budget Account.

Under the provision of the Trust Agreement, all revenues derived from operation of the Tobin Bridge, all aircraft landing fees and motor vehicle parking fees derived from the operations of the airport properties, and all income from investments held in all funds with the exception of the Construction Funds, Port Properties Fund and self-insurance account are pledged for the debt service requirements of the Revenue Refunding Bonds, Series 1978.

To the extent that pledged revenues exceed debt service requirements, they are available to meet operating expenses and for transfer to other funds. To the extent unexpended, these amounts continue to be available for the debt service requirements in any year.

B. Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the Trust Agreement, continued:

Presented below are the 1992 and summary 1991 revenue and operating expenses as determined in accordance with the Trust Agreement and a reconciliation to net income as presented in the accompanying Statements of Income under generally accepted accounting principles (GAAP).

(For Trust accounting purposes, the provision for uncollectible accounts is netted within the revenue caption.)

(in thousands)	Bridge	Airport Properties	Port Properties Maritime	Port Properties Development*	Facilities Management	Income on Investments	1992 Total	1991 Total
Revenues, Net:								
1978 Pledged Revenues	$ 5,399	$ 77,681	$ —	$ —	$ —	$ 13,300	**$ 96,380**	$ 92,544
Other	—	81,842	19,346	5,318	912	—	**107,418**	100,537
	5,399	159,523	19,346	5,318	912	13,300	**203,798**	193,081
Operating Expenses:								
Operations and Maintenance	2,781	57,361	14,761	2,274	151	—	**77,328**	78,832
Administration	2,145	27,030	5,100	1,956	635	—	**36,866**	31,101
Insurance	473	2,702	762	348	89	—	**4,374**	3,084
Pension (Note F)	211	2,266	365	147	48	—	**3,037**	2,765
	5,610	89,359	20,988	4,725	923	—	**121,605**	115,782
Excess (Deficit) of Revenues Over Operating Expenses Under Trust Agreement	(211)	70,164	(1,642)	593	(11)	13,300	**82,193**	77,299
Add: Self Insurance Cost (1)	30	178	50	23	6	—	**287**	612
Pension Adjustment (1)	31	337	54	22	7	—	**451**	426
Difference on Sale of Equipment (2)	—	207	—	—	—	—	**207**	42
Self Insurance Income on Investments (3)	—	—	—	—	—	858	**858**	1,040
Credit Enhancement Fees (3)	—	150	—	—	—	—	**150**	—
Less: Payments In Lieu of Taxes (4)	(5,351)	(5,020)	(887)	(275)	—	—	**(11,533)**	(6,528)
Interest Expense (4)	(3,329)	(16,873)	(5,380)	(993)	(29)	—	**(26,604)**	(24,990)
Depreciation and Amortization (4)	(2,835)	(24,187)	(4,974)	(3,267)	—	—	**(35,263)**	(33,982)
Net Income (Loss)	$(11,665)	$ 24,956	$ (12,779)	$ (3,897)	$ (27)	$ 14,158	**$ 10,746**	$ 13,919

* Development includes activities related to the Authority's alternative use program, principally for Commonwealth Pier, Fish Pier and Hoosac Pier.

(1) Expensed under Trust Agreement, not an expense under GAAP.
(2) Equipment is depreciated under GAAP but not under Trust Agreement.
(3) Not revenue under Trust Agreement, revenue under GAAP.
(4) Not an operating expense under Trust Agreement, expensed under GAAP.

C. Cash, Cash Equivalents and Investments:

The following summarizes the Authority's cash, cash equivalents and investments at June 30, 1992 by the various funds and accounts established under the Trust Agreement with the Authority's bondholders. Summary 1991 information is also presented. (Assets designated for credit enhancement and deferred compensation are also included.)

Use defined for specific purposes:	Cash and Cash Equivalents	Investments	Assets whose use is limited Cash, Cash Equivalents and Investments (in thousands)	1992 Total	1991 Total
1978 Debt Service Fund			$ 32,453	**$ 32,453**	$ 40,518
Operating Fund	$ 4,853		696	**5,549**	2,289
Self-insurance Account			15,369	**15,369**	14,074
Maintenance Reserve			63,484	**63,484**	65,839
Payments In Lieu of Taxes			3,529	**3,529**	2,931
Capital Budget			57,096	**57,096**	59,428
Improvement and Extension Fund	4,873	$ 12,360	816	**18,049**	12,141
1985 Interest and Sinking Fund			12,611	**12,611**	12,161
1988 Interest and Sinking Fund			13,548	**13,548**	11,953
1988 Construction Fund			23	**23**	5,352
1990 Interest and Sinking Fund			10,459	**10,459**	8,155
1990 Construction Fund			43,545	**43,545**	69,107
Credit Enhancement Account (Note H)			9,952	**9,952**	9,700
	9,726	12,360	263,581	**285,667**	313,648
Deferred Compensation (Note G)			8,906	**8,906**	7,105
Total	$ 9,726	$ 12,360	$ 272,487	**$294,573**	$ 320,753

The carrying amount of the Authority's cash deposits was $1,237,000 and $4,248,000 at June 30, 1992 and 1991, respectively. The bank balance was $3,657,000 and $11,123,000 at June 30, 1992 and 1991, respectively. The nature of the reconciling items between the book and bank balance consisted primarily of outstanding checks which had not cleared the bank at year-end. The bank balance was fully collateralized as of June 30, 1992. At June 30, 1991, $228,000 was covered by federal depository insurance, and $10,835,000 was uninsured and uncollateralized.

C. Cash, Cash Equivalents and Investments, continued:

The following summarizes the Authority's cash and investments by type held at June 30, 1992. Summary 1991 information is also presented.

	Carrying Amount	Market Value
	(in thousands)	
Certificates of Deposit	$ 100	$ 100
Repurchase Agreements	14,740	14,740
U.S. Government Securities:		
Treasury Notes	119,023	119,690
Treasury Bills	18,359	18,516
Federal Farm Credit (FFC)	46,250	46,191
Federal National Mortgage Association (FNMA)	13,899	13,979
Federal Home Loan Bank (FHLB)	36,490	37,235
Federal Home Loan Mortgage Corp. (FHLMC)	10,187	10,749
Zero Coupon	24,447	24,890
Total U.S. Government Securities	283,495	286,090
Fidelity U.S. Treasury Income Portfolio Mutual Fund	935	935
Total investments	284,430	287,025
Cash in bank	1,237	1,237
Total at June 30, 1992	$ 285,667	$ 288,262
Total at June 30, 1991	$ 313,648	$ 315,806

The Authority is authorized by the Trust Agreement to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, in bonds or notes of public agencies or municipalities, in bank time deposits and in repurchase agreements. All investments are held on behalf of the Authority by the Authority's Trustee and Custodian.

U.S. Government securities other than FFC, FNMA, FHLB, FHLMC and Zero Coupon securities are guaranteed by the U.S. Government. The Certificates of Deposit are fully insured by the Federal Depository Insurance Corporation. Repurchase agreements are collaterized by obligations of the U.S. Government or agencies of the U.S. Government. The Trust Agreement requires that securities underlying repurchase agreements must have a market value at least equal to the cost of the agreement plus accrued interest. The Fidelity U.S. Treasury Income Portfolio Mutual Fund is not guaranteed by the U.S. Government.

D. Investment in Facilities and Depreciation:

Net investment in facilities at June 30, 1992 and 1991 is comprised of:

	1992	1991
	(in thousands)	
Facilities completed by operation:		
Airports	**$ 683,282**	$ 660,044
Bridge	**86,058**	76,301
Port	**258,975**	251,035
Investment in facilities	**$1,028,315**	$ 987,380
Facilities completed by type:		
Land and land improvements	**$ 112,500**	$ 111,742
Bridge and bridge improvements	**83,641**	73,913
Buildings	**533,353**	513,606
Runways and other paving	**248,604**	241,153
Machinery and equipment	**50,217**	46,966
	1,028,315	987,380
Accumulated depreciation and amortization	**(452,297)**	(422,492)
	576,018	564,888
Construction in progress	**132,437**	96,805
Net investment in facilities	**$ 708,455**	$ 661,693

Asset lives used in the calculation of depreciation are as follows:

Bridge	100 years
Bridge improvements	10 and 25 years
Airport facilities - buildings, runways and other paving	10 and 25 years
Port facilities - buildings and piers	25 years
Machinery and equipment	10 years

E. Funded Debt:

The following is a summary of the Authority's funded debt activity for the years ended June 30, 1992 and 1991:

	June 30, 1992	June 30, 1991
	(in thousands)	
Funded debt, beginning of year	**$ 465,695**	$ 380,725
New debt issued	**—**	90,935
Principal paid on funded debt	**(6,355)**	(5,965)
Funded debt, end of year	**$ 459,340**	$ 465,695

Funded debt at June 30, 1992 and 1991 is comprised of the following:

Revenue Refunding Bonds		
Series 1978 (weighted average interest rate of 6.7%)	**$ 32,280**	$ 36,545
Series 1985 - A & B (weighted average interest rate of 8.5%)	**11,950**	12,835
Revenue Bonds		
Series 1988-A (weighted average interest rate of 7.1%)	**22,540**	23,745
Series 1990-A (weighted average interest rate of 7.1%)	**22,800**	22,800
Term Bonds (weighted average interest rate of 7.9%)	**369,770**	369,770
Total Funded Debt	**459,340**	465,695
Less: Original Issue Discount	**(1,555)**	(1,612)
	$ 457,785	$ 464,083

Scheduled principal payments on funded debt are as follows:

Fiscal Year	Amount
	(in thousands)
1993	$ 7,800
1994	8,310
1995	8,875
1996	9,490
1997	10,170
Thereafter	414,695
	$ 459,340

E. Funded Debt, continued:

In prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with the Trustee for such bonds to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 1992, the following bonds outstanding are considered defeased:

	June 30, 1992 (in thousands)
1964 Series	$ 31,835
1969 Series	47,610
1971 Series	60,900
1973 Series	85,150
1982 Series	52,195
Total Defeased Bonds	$277,690

F. Pension Costs:

In July 1978, the Massachusetts legislature passed legislation which was enacted as Chapter 487 of the "Massachusetts Acts of 1978" and signed into law on July 18, 1978. This enactment provided for the establishment of the "Massachusetts Port Authority Employees' Retirement System" (the Plan), a contributory retirement system that is separate from the Massachusetts State Employees' Retirement System. Prior to this enactment, Authority employees were members of the state employees' system, and the funding of the pension liability was on a "pay as you go" method. Pursuant to this enactment, the employees' rights and benefits under the state plan were transferred to the new system, and the Authority established a separate pension fund. The Plan was established to provide retirement benefits for substantially all employees of the Authority and incidental benefits for their surviving spouses, beneficiaries and contingent annuitants. The Authority funds pension costs based on the actuarially determined annual pension expense which includes current service cost and the amortization, over a 20-year period, of unfunded prior service costs. This annual pension contribution, as actuarially determined, includes a factor for the reimbursement to the Commonwealth for amounts expended by the Commonwealth on account of the Authority's employees retired prior to January 1, 1979.

The Authority's covered payroll for members of the Plan as of the most recent actuarial valuation dates was approximately $31,575,000 as of January 1, 1991. Total payroll for Authority employees was $46,179,000 for the 12 months ended December 31, 1990.

The actuarial cost method utilized to determine contributions to the Plan for the years ended December 31, 1991 and 1990 was the entry age normal-frozen initial liability cost method.

The more significant actuarial assumptions underlying the actuarial computations for the Plan years ended December 31, 1991 and 1990 are as follows:

Assumed rate of return on investments	- 8.0% per annum, compounded annually
Nondisabled life mortality basis	- 1971 Group Annuity Mortality Table for males and the same table with ages set back six years for females
Employee turnover basis	- Based on actuarial table T-5 from the Pension Actuaries Handbook
Salary escalation	- 6.0% per annum
Retirement	- Age 63 or age as of the valuation date, if later
Retirement benefits	- 2.3% per year of service
Postretirement cost of living increases	- 4.5% per annum, compounded annually

F. Pension Costs, continued :

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other Public Employees' Retirement Systems Plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan.

At January 1, 1991, the assets in excess of the pension benefit obligation were $10,449,077, determined as follows:

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	$20,884,000
Current employees:	
Employee financed	18,893,000
Employer financed-vested	15,211,000
Employer financed-nonvested	17,791,000
Total pension benefit obligation	72,779,000
Net assets available for benefits, at market value	83,228,077
Assets in excess of pension benefit obligation	$10,449,077

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due and fund operating costs of the Plan. The Plan also amortizes the unfunded liability in level amounts over a period of 20 years.

Total contributions to the Plan were $5,592,447 for the Plan year ended December 31, 1991. This includes employee contributions of $2,691,447 which are based upon a percentage of employee base pay (5% for employees hired before December 31, 1974, 7% for employees hired between January 1, 1975 and December 31, 1983 and 8% for employees hired after December 31, 1983 and, effective January 1, 1988, an additional 2% of base pay over $30,000 for those employees hired after December 31, 1978) and employer contributions of $2,901,000 which were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed for the Plan's fiscal year beginning January 1, 1991. Employer contributions consisted of (a) $864,000 normal cost, (b) $1,782,000 amortization of the unfunded actuarial accrued liability and (c) $255,000 funding for operating costs.

F. Pension Costs, continued:

The contributions made by the employees and employer of covered payroll during the last three years are as follows:

Plan Year	Employees	Employer
1989	8%	10%
1990	8%	10%
1991	8%	9%

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed above.

Set forth below is a table listing five-year historical trend information of the Plan. (Trend information related to plan years 1982 through 1986 is unavailable.)

Plan Year	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1) / (2)	(4) Assets in Excess of Pension Benefit Obligation (1) - (2)	(5) Annual Covered Payroll	(6) Assets in Excess of Pension Benefit Obligation as a Percentage of Annual Covered Payroll (4) / (5)
1987	$47,699,280	$43,660,788	109.2%	$ 4,038,492	$21,268,000	19.0%
1988	54,212,201	50,274,392	107.8%	3,937,809	25,974,904	15.2%
1989	63,150,576	58,913,992	107.2%	4,236,584	25,998,317	16.3%
1990	76,687,077	63,937,109	119.9%	12,749,968	29,397,099	43.4%
1991	83,228,077	72,779,000	114.4%	10,449,077	31,575,000	33.1%

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation and assets in excess of the pension benefit obligation, in isolation, can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Public Employee Retirement System (PERS). Trends in assets in excess of pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the assets in excess of pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the larger this percentage, the stronger the PERS.

F. Pension Costs, continued:

For the financial statements prepared in accordance with generally accepted governmental accounting principles, pension expense includes current service cost and amortization of past service costs which were determined as of July 1, 1973, over a 25-year period, commencing in 1974. Total pension expense so determined was $2,586,000 and $2,339,000 for the years ended June 30, 1992 and 1991, respectively.

In addition to providing pension benefits, the Authority provides certain health care benefits for approximately 240 retired employees through insurance company contracts. The Authority recognizes the cost of providing those benefits by expensing the insurance premiums when paid. This expense was $885,000 and $777,000 for the years ended June 30, 1992 and 1991, respectively.

G. Deferred Compensation:

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Authority (without being restricted to the provisions of benefits under the plan), subject only to the claims of the Authority's general creditors. Participants' rights under the plan are equal to those of general creditors of the Authority in an amount equal to the fair market value of the deferred account for each participant. It is the opinion of the Authority's legal counsel that the Authority has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Authority believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

The market value of the deferred compensation plan assets and the total amount of deferred compensation, including income earned, were $8,906,000 and $7,105,000 at June 30, 1992 and 1991, respectively. These amounts are included in the accompanying balance sheets under the captions "assets whose use is limited" and "accounts payable and accrued expenses."

H. Contingent Liabilities and Commitments:

Contractual Obligations for Construction:
Contractual obligations for construction were approximately $92,878,000 at June 30, 1992.

Interest Rate Swap Agreements:
The Authority has two interest rate swap agreements outstanding at June 30, 1992. Under the terms of the first agreement, which is for a notional amount of $30,000,000, the Authority will receive fixed interest payments of 6.45% beginning in May 1993 through June 1999 and pay interest at a rate that varies with the J.J. Kenney index. This index was 2.37% at June 30, 1992.

H. Contingent Liabilities and Commitments, continued:

Under the terms of the second agreement, which is for a notional amount of $68,560,000, the Authority will pay fixed interest payments of 6.455% beginning in August 1995 through July 2002 and receive interest at a rate that varies with the PSA index. This index was 2.47% at June 30, 1992.

The Authority does not anticipate any losses over the terms of these agreements.

Credit Enhancement Agreement:
During fiscal 1991, the Authority entered into a credit enhancement agreement in connection with an unrelated partnership's bond issuance. The bonds were issued to provide financing to the partnership (the Borrower) for construction of a conference center and hotel to be located at Logan Airport. This facility is currently under construction. The credit enhancement agreement represents a guarantee by the Authority to pay bondholders up to $9.7 million, in the event the Borrower does not have sufficient funds (as defined) to meet its debt service requirements.

In the opinion of the Authority's management, the possibility of the Authority having to act upon the above guarantee is unlikely.

Third Harbor Tunnel:
The Commonwealth, through its designated agencies, plans to extend the eastern terminus of the Massachusetts Turnpike to Logan Airport by constructing a new tunnel under Boston Harbor. The Authority is not responsible for the construction of the project or for its financing and does not expect to have any responsibility for such matters or for the operation of the tunnel.

The Third Harbor Tunnel Project (the "Tunnel Project") affects the Authority in a variety of ways. The effects include the necessity of eminent domain takings or land acquisitions by the Commonwealth of certain real property in South Boston and Logan Airport to accommodate the construction and operation of the Tunnel Project. On October 3, 1991, the Authority and the Massachusetts Department of Highways entered into a Sale/Mitigation Agreement (the "Agreement") to establish a framework for land acquisitions by the Commonwealth for the Tunnel Project. Specifically, the Agreement provides for acquisitions of Authority land by purchase by the Commonwealth, coupled with mitigation by the Commonwealth of the effects of such acquisitions. Mitigation will include, for example, provision of replacement parking, construction of temporary roadways and payment of increased operating expenses and lost revenues. In addition, the Agreement provides that the Authority will retain substantial rights in the land acquired by the Commonwealth; air and development rights over the below ground surface portions of the Tunnel Project, for example. Moreover, the Agreement provides that the Commonwealth perform necessary hazardous waste remediation associated with the land acquired for the Tunnel Project. The Authority expects that the acquisitions will not ultimately result in any material change in its financial position.

. Payments in Lieu of Taxes:

The Enabling Act authorizes and directs the Authority, subject to certain standards and limitations, to enter into agreements to make annual payments in lieu of taxes to Boston, Chelsea and Winthrop. For fiscal 1992, these agreements and annual extensions provided for payments aggregating approximately $11,533,000 of which the Authority's obligation to Chelsea for annual payments in lieu of tax payments through 2012 was satisfied by a payment of $5,000,000. For fiscal 1993, it is anticipated that the payments pursuant to these agreements and annual extensions shall be approximately $6,227,000 of which approximately $209,000 is subject to an annual adjustment in accordance with an index related to the consumer price index and Logan Airport commercial passenger enplanements.

The agreements extend from 1995 through 2012 and may be further extended. The annual payments are not to exceed the balance of revenues remaining after deposits to the 1978 Debt Service Fund, payment of operating expenses, deposits to the 1985, 1988 and 1990 Interest and Sinking Funds and deposits to the Maintenance Reserve Fund.

J. Litigation:

Potential Logan Airport Soil and Groundwater Contamination:
The Authority has received a Notice of Responsibility from the Massachusetts Department of Environmental Protection (the "DEP") under state law alleging that there have been releases of oil and hazardous materials at Logan Airport and that, as the owner of Logan Airport, the Authority is a "responsible party" liable for the costs of investigating, assessing and remediating soil and groundwater contamination at Logan Airport. While the full nature and extent of the releases and any necessary remedial and cleanup measures have yet to be determined, they may be substantial. The Authority, however, plans to seek to recoup its costs of compliance with third parties who are responsible for the contamination, through liability insurance coverage afforded to the Authority or to responsible third parties, and through rates and charges levied upon users of Logan Airport.

In addition, the Authority is a defendant in a number of legal proceedings arising in the normal course of business. Management, after reviewing all actions and proceedings pending against or involving the Authority with legal counsel, believes that the aggregate liability of loss, if any, resulting from the final outcome of those proceedings will not be material.

K. Leases:

The Authority leases a major portion of its Aviation and Port Properties to various tenants. Most of these operating leases provide for periodic adjustments to rental rates. In addition, certain of the lease agreements contain provisions for contingent payments based on a specified percentage of the tenant's gross revenue. Rental income from contingent payments received under these provisions was approximately $21,536,000 and $20,193,000 for 1992 and 1991, respectively.

Minimum future rental income, excluding contingent rentals, from noncancelable operating leases as of June 30, 1992 are as follows:

Year	Amount (in thousands)
1993	$ 19,607
1994	19,766
1995	19,160
1996	18,123
1997	17,426
Thereafter	228,471
	$322,553

L. Related Party Transactions:

In June 1984, the Authority entered into a lease agreement, which expired in June 1990 and was renewed through June 1995, with the Commonwealth for office space at the State Transportation Building. Under the terms of the lease, the Authority paid rental fees of approximately $1,388,000 for the year ended June 30, 1992 to the Commonwealth. The Authority also provided building management services for the State Transportation Building. Consideration for these services was $256,000 for the year ended June 30, 1992. The Commonwealth also reimbursed the Authority approximately $656,000 for the year ended June 30, 1992 for direct building management expenses incurred by the Authority and approximately $5,373,000 for the year ended June 30, 1992 for building expenses paid by the Authority on behalf of the Commonwealth. The contract to provide building management services was terminated on August 31, 1992.

Gross Revenues, Authority-wide ....$207.4 million
Net Income ....10.7 million

Logan International Airport, East Boston
Total Passengers ....22 million
Domestic..19 million
International ....3 million
Total Pounds of Cargo and Mail ....800 million

L.G. Hanscom Field, Bedford
Total Operations (Takeoffs/Landings) 213,000
Passengers 6,174

Tobin Memorial Bridge
Total Vehicle Crossings ....22.6 million

The Waterfront
Port Industry Facilities
Moran Container Terminal, Charlestown
Container Volume 38,729

Conley Terminal, South Boston
Container Volume 33,101
Automobile Processing 24,041

Massachusetts Marine Terminal and Former Navy Recreation Property, South Boston
Automobile Processing 55,727

Army Base, South Boston
Cement Handled ....85,640 tons

Waterfront Properties
Fish Pier, South Boston
Fish Processed, pounds ....19 million
Fish Landed, pounds ....12 million

Black Falcon Cruise Terminal, South Boston
Total Cruise Passengers...........................18,300

World Trade Center Boston, South Boston
Exhibition and conference space at Commonwealth Pier leased to private developers.

Constitution Plaza, Charlestown
Multi-purpose office and retail space at Hoosac Pier leased to private developers.

East Boston Shipyard, East Boston
Leased to private entity for ship repair and marine industrial development.

East Boston Piers, East Boston
Development of public park underway.

Revere Sugar, Charlestown
Leased to Massachusetts Water Resources Authority.

The Massachusetts Port Authority is an independent revenue bonding authority chartered by the Massachusetts State Legislature and supported by revenues from the facilities it owns and operates.

Equal Opportunity For All
In support of the basic principles of the Massachusetts Executive Orders, and in compliance with state and federal laws on affirmative action, Massport is committed to a program of effective affirmative action through institutionalized procedures that ensure equal opportunity in its personnel practices, daily operations, and business transactions.

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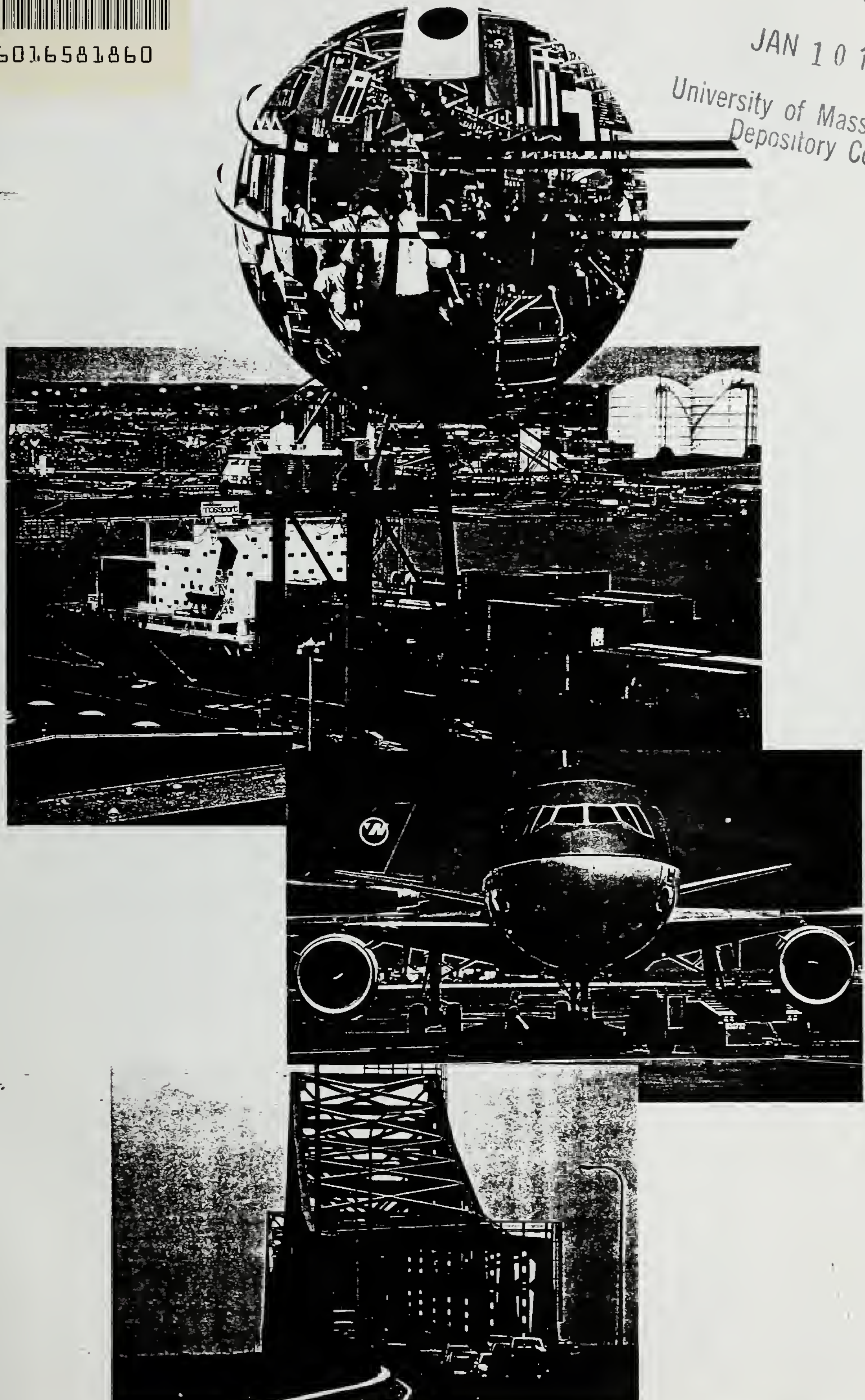
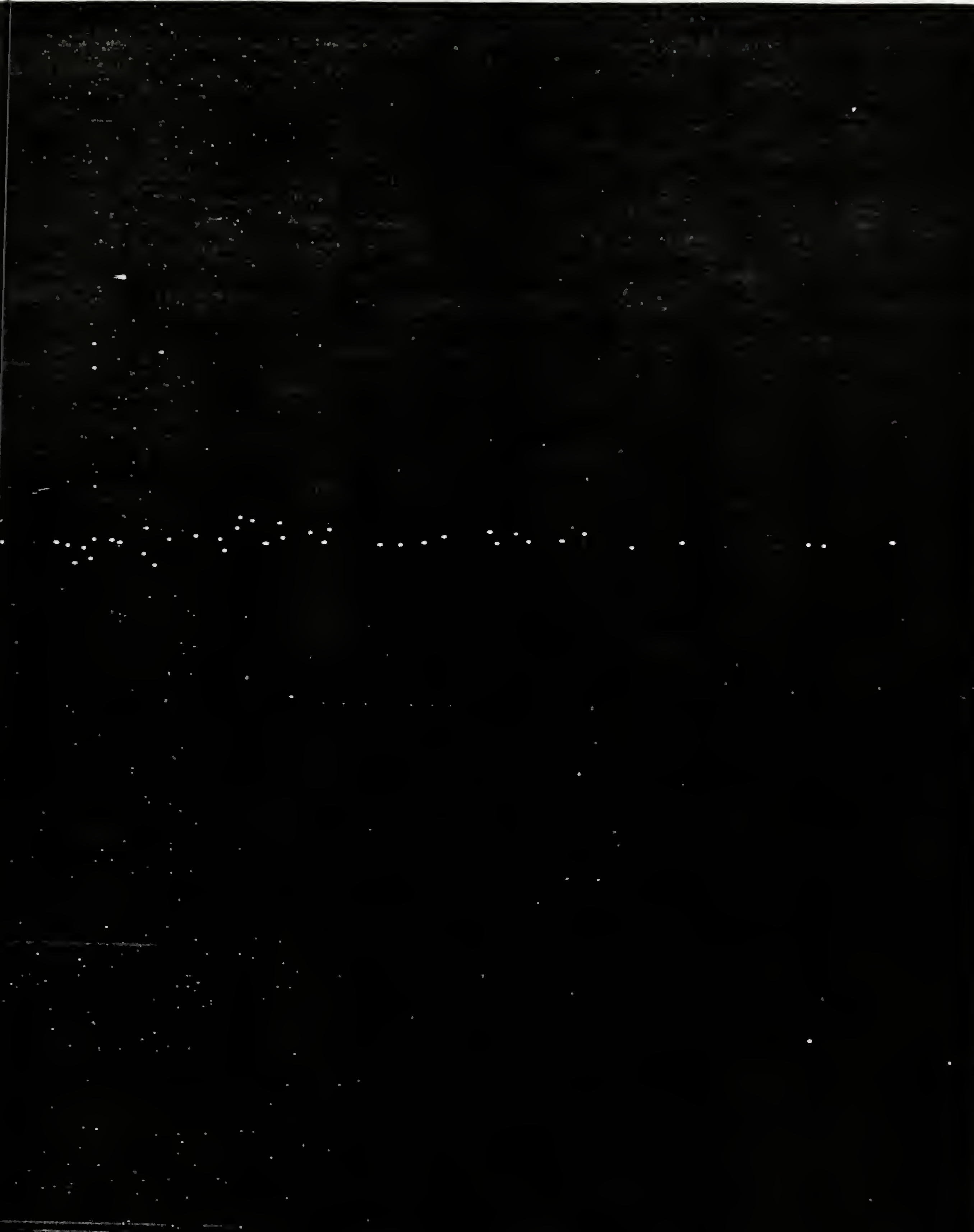
massport

Massachusetts Port Authority

1993 Annual Report





Message

from the Executive Director

As Massport's new executive director, I'm eager to face the challenges that this agency presents, and I'm excited by the world of opportunities that exist.

As the former secretary of economic affairs for the Commonwealth of Massachusetts, I came to Massport with a unique understanding of this agency's immense contribution to the local economy. Last year alone Massport's facilities infused 6.6 billion dollars into Massachusetts. In addition, Massport-run operations provided over 24,000 jobs for private sector businesses and industries.

As impressive as these statistics are, the new Massport administration will not be content to ride the coattails of past success. At no time in this agency's history has Massport's commitment to economic development been more important to the people of Massachusetts.

With a comprehensive capital investment plan for all Massport facilities, and ambitious international trade and tourism marketing programs, Massport's upcoming agenda directly supports Governor William Weld's statewide strategy to create an environment in Massachusetts that encourages business growth and job creation.

In the next few years, such projects as the Logan Modernization Plan, the expansion of Conley Terminal and other maritime terminals, the redecking and repainting of the Tobin Bridge, and the maintenance of Hanscom Field as a first-class general aviation airfield, will inject over two billion dollars in construction funds into our state's economy,

create thousands of jobs, and help our state's businesses get people and goods where they need to go in a timely and competitive fashion.

As I continue with plans to modernize Logan's passenger facilities I also want to follow the FAA's direction to review our airport runway plans. In support of the state's second largest industry, tourism, I intend to work with Governor Weld and Mayor Menino to increase convention capacity in Boston. And as the airport and seaport sharpen their competitive edges as the international gateways to New England, I plan to market Boston's advantages to the world.

Massachusetts needs an intermodal transportation network that can move goods and people not only from the Berkshires to the Massachusetts Bay, but from the Mid-West to the Middle East, and Massport has the resources to make this happen.

I believe the next decade will bring greater change to our world than that of the last three decades combined. We can either be a part of leading those changes, or we will be surpassed — overwhelmed by the advancements that those changes bring.

I choose to compete; to create what the change should be. I pledge to use the talent and resources at Massport to build an ambitious future for all families and communities in Massachusetts.

Stephen P. Tocco

Executive Director & CEO

Aviation

Cleared for Take-off

THE FUTURE OF LOGAN INTERNATIONAL AIRPORT IS A CRUCIAL ELEMENT IN THE LIFE AND GROWTH OF THE MASSACHUSETTS ECONOMY. A HARD WORKING ASSET FOR MASSACHUSETTS AND NEW ENGLAND, LOGAN AIRPORT STIMULATES THE REGION'S ECONOMY BY MORE THAN $4.4 BILLION EACH YEAR—AN AVERAGE OF MORE THAN $12 MILLION EVERY DAY. MORE THAN 15,000 PEOPLE ARE EMPLOYED AT LOGAN AIRPORT—ONLY 580 OF WHOM ARE EMPLOYED BY MASSPORT—WHICH IS ALSO HOME TO MORE THAN 100 PRIVATE BUSINESSES.

With an annual volume of over 23 million passengers, Logan is the 10th busiest airport in the United States and the 17th busiest in the world. In the transatlantic market, Logan Airport ranks fourth as an international gateway, surpassed on the East Coast only by New York's Kennedy Airport.

Over the next decade, Massport will invest over a billion dollars in a Logan Modernization Plan to accommodate the growth in air traffic which a recovering economy is sure to generate. Even conservative estimates project that 37 million passengers will be using Logan Airport by the year 2010.

As it stands now, Logan's airfield and groundside capacity is severely strained. For Boston to establish itself as the capital of the Atlantic Rim, and for New England to be a first-class, economic power, an innovative, 21st century international airport is a must—one with significant capacity enhancement programs.

The Logan Airport modernization plan, a package of passenger terminal, airport infrastructure, and regional transportation projects will create a more efficient airport for travelers, make better use of limited space, and respond to the region's economic needs, now and in the future.

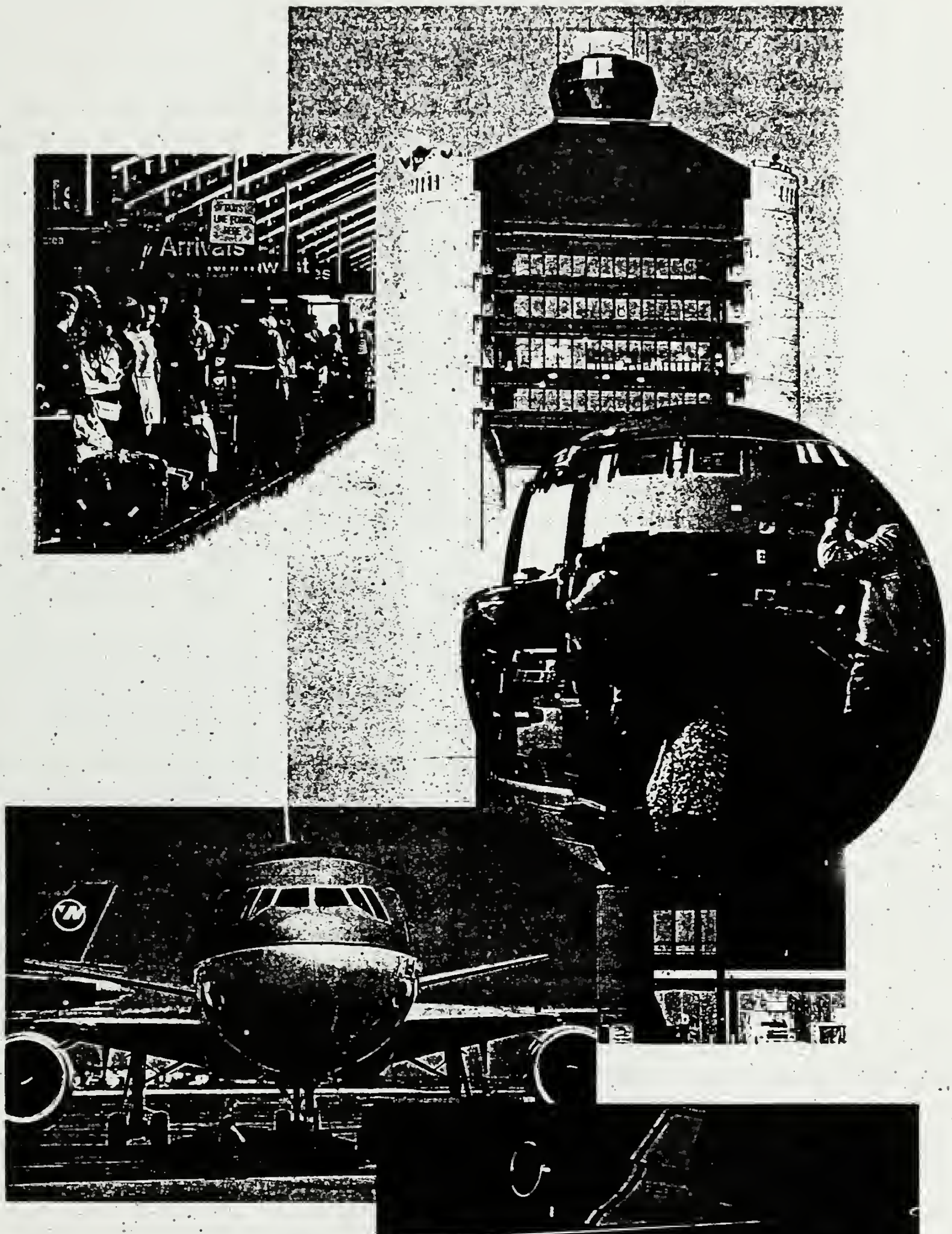
Massport's plans include an expanded International Terminal; a new customs hall; a complete replacement of the aging Terminal A; a revamped airport roadway system and the addition of a second garage; a people-mover system; an airside connector tunnel for baggage trucks and other service vehicles; and a new jet fuel distribution system.

Although construction is still ahead, major pre-construction requirements were completed this year:

- A draft Generic Environmental Impact Report, covering the entire airport program was approved by the state's Secretary of Environmental Affairs.

- Massport completed the Facilities Plan for the terminal area, a blueprint that weaves together a series of projects that will be designed and constructed over time—as passenger demand, environmental approval, and financial resources dictate.

- The Federal Aviation Administration (FAA) approved a $3 passenger facility charge (PFC) that is earmarked to fund $599 million in Logan Modernization and Soundproofing Projects.


Arrivals

• Construction is under way on two key airfield safety projects—a new $8.9 million aircraft rescue and fire fighting facility, and a series of safety ramps at runway ends—put Logan Airport on the cutting edge of emergency response in world aviation.

• The $40 million Harborside Conference Center and Hotel opened in June, featuring extensive meeting space and 270 guest rooms. The completed facility has generated 210 long-term jobs.

• 400,000 square feet of air cargo and office space on Logan South is nearly completed and rented. This $42 million investment supports Massport's commitment to international trade. Logan's cargo facilities move 818.5 million pounds of cargo and mail annually which ranks Logan 25th for cargo service in the world.

Few metropolitan airports are so conveniently located to the city center, or are so closely bordered by densely populated urban neighborhoods or environmentally sensitive tidal wetlands. And few, of the other major U.S. airports have such a high percentage of non-transfer passengers. Nearly 90 percent of Logan passengers are beginning or finishing their air travel at Logan. This creates the need for tailor-made programs to deal with ground access.

• The overall use of ground transportation alternatives has increased by 70 percent at Logan since 1984, when Massport first began developing its network of convenient and environmentally sound ground transportation programs. Woburn Logan Express joined the network last fall, providing the first north suburban link in the system. A new airport-style waiting room is currently under construction in Woburn.

• Massport joined the MBTA in breaking ground for a unique "one stop" airport terminal at South Station. From this convenient downtown location, easily accessible by commuter rail, T, or bus, passengers will be able to buy tickets, check their bags, and take a designated bus through the new Third Harbor Tunnel directly to their airline terminal.

• A garage for 1,500 Logan employees is under construction in Chelsea. The garage, a result of Massport's commitment to encourage business development in Chelsea, will generate approximately $500,000 per year in additional revenue to that city. With the same stroke, Massport removes a significant number of vehicle trips off the airport's roadways.

With one of the most aggressive noise abatement programs in the country, Massport has mitigated the effects of noise through strong regulations and successful noise reduction programs:

• Massport soundproofed 50 percent more homes in FY 93, in a plan to accelerate the number of homes sound-insulated in East Boston, Winthrop and Revere. By the end of 1993, nearly 2100 residential units (or 1,160 houses) will be treated.

• The new Boeing 747-4000 and McDonnell Douglas MD-1 aircraft made their debut in regular service at Logan last year. Both of these new aircraft are powered by quieter Stage 3 jet engines and their introduction into service helped boost the Stage 3 percentage of Logan's operations from 60 to 66 percent—well above the national average.

Maritime

Reclaiming a City's Legacy

BOSTON'S HISTORIC WATERFRONT IS A VALUABLE ECONOMIC, TRANSPORTATION, AND RECREATIONAL RESOURCE FOR THE ENTIRE NEW ENGLAND REGION. MASSPORT'S PUBLIC MARINE TERMINALS ENSURE THAT MASSACHUSETTS IS AN EFFECTIVE COMPETITOR IN THE INTERNATIONAL MARKETPLACE, HELPING OUR STATE'S BUSINESS COMMUNITY REACH OUT TO NEW OPPORTUNITIES AROUND THE GLOBE. AND AT A TIME WHEN MORE PEOPLE ARE REDISCOVERING THEIR HARBOR BECAUSE OF EVENTS LIKE "SAIL BOSTON", MASSPORT IS ALSO SAFEGUARDING THIS RESOURCE FOR INCREASED PUBLIC ENJOYMENT.

Massport's port and waterfront properties contribute over $2 billion annually to the local economy, generating more than 7,400 jobs.

In 1990 Massport announced a long-term strategy to advance the dream of a vital and productive waterfront. The strategy, consisting of important container terminal, dredging, and rail components, is designed to ensure that the Port of Boston can handle the shipping industry's increasingly larger vessels, as well as the growing opportunities generated by joint Massport and Commonwealth of Massachusetts trade missions to key markets around the world. Many initiatives in FY 93 advanced the Port of Boston's competitive edge:

- New direct rail service from Moran Terminal to the Midwest and Canada through a distribution center at Fort Devens was launched last spring in a cooperative effort among the Commonwealth, the railroads, and other members of the port community to improve intermodal service to the Port. Given Boston's advantageous location — one day closer to Europe— the Port gains an added competitive edge over other East Coast cities for steamship and container traffic.

- The expansion project at Conley Container Terminal is transforming Conley's container capacity from a single "Panamax" berth to two berths capable of handling the container shipping industry's next generation—the "post Panamax" vessels. The project entered its final stage with a contract with Paceco Corporation to fabricate Conley's two massive new Post-Panamax cranes. The reach of two existing cranes has been extended, the backland storage space has been doubled in size, and the second berth is being built.


LYKES LINES

• Majesty Cruise Lines announced a dramatic increase to the cruise line-up at the Black Falcon Cruise Terminal. Majesty will launch weekly Boston-to-Bermuda cruises in the spring of 1994, thanks to aggressive efforts by Massport's maritime and marketing divisions. The 1993 cruise season was a $6.8 million winner for the local economy. The addition of 27 cruises for the 1994 season is expected to generate $9 million more, for a projected total economic impact of nearly $16 million next season.

• Massport served as the local sponsor, joining the U.S. Army Corps of Engineers, on a harbor dredging project. The project will deepen the harbor's principal shipping channels and cargo berths to accommodate larger vessels expected in the commercial fleets of the future.

• Lykes Lines of New Orleans began Boston's first direct outbound service from Conley Terminal to Europe this spring, a longstanding Massport goal.

• Massport has worked cooperatively with the Highway Department to ensure that the Tunnel project enhances access to the seaport and airport. The tunnel tubes have been berthed and outfitted at Massport's Army Base pier.

• A development agreement for the expansion of the World Trade Center has been concluded between Massport and the John Drew Company, World Trade Center developer. Eventually, the expansion will include a hotel, garages, office buildings and open space.

• Construction commenced this spring on the East Boston Piers Park. Massport's $14 million investment will transform two underutilized and dilapidated waterfront piers into a vibrant, oceanfront park.

Trade & Tourism

Pathways to the Global Marketplace

THE EXPANSION OF MASSPORT'S INTERNATIONAL TRADE EFFORTS AND MASSPORT'S PROGRAMS TO PROMOTE LONG-DISTANCE TOURISM—BOTH INTERNATIONAL AND DOMESTIC—ARE ACTIONS THAT CAN SIGNIFICANTLY ENHANCE BUSINESS FOR THE STATE. GOVERNOR WELD AND LIEUTENANT GOVERNOR CELLUCCI'S COMMITMENT TO EXPAND THE COMMONWEALTH'S ROLE IN THE GLOBAL MARKETPLACE WAS STRONGLY SUPPORTED BY MASSPORT IN FY 93, AS THE AGENCY COMPETED AGGRESSIVELY WITH OTHER STATES FOR A SHARE OF THE RAPIDLY GROWING MARKETS OF THE FAR EAST, EUROPE AND CANADA. BOSTON'S PRIME LOCATION ON KEY ATLANTIC TRADE AND TRAVEL ROUTES—AS WELL AS THE AGENCY'S ENVIABLE REPUTATION FOR PROVIDING EFFICIENT AND FAST SERVICE THROUGH THE AIRPORT AND SEAPORT—WILL CERTAINLY GIVE BOSTON AN ECONOMIC BOOST IN THE COMING DECADE.

In 1993 Massport forged successful joint ventures with private sector business, the Commonwealth of Massachusetts Executive Office of Economic Affairs, the Massachusetts Office of Travel and Tourism, the Greater Boston Convention and Visitors Bureau, and the Massachusetts Convention Center Authority to find new overseas markets for Massachusetts products and services, and in attracting more international visitors to the state. And new markets, ultimately translate into new jobs.

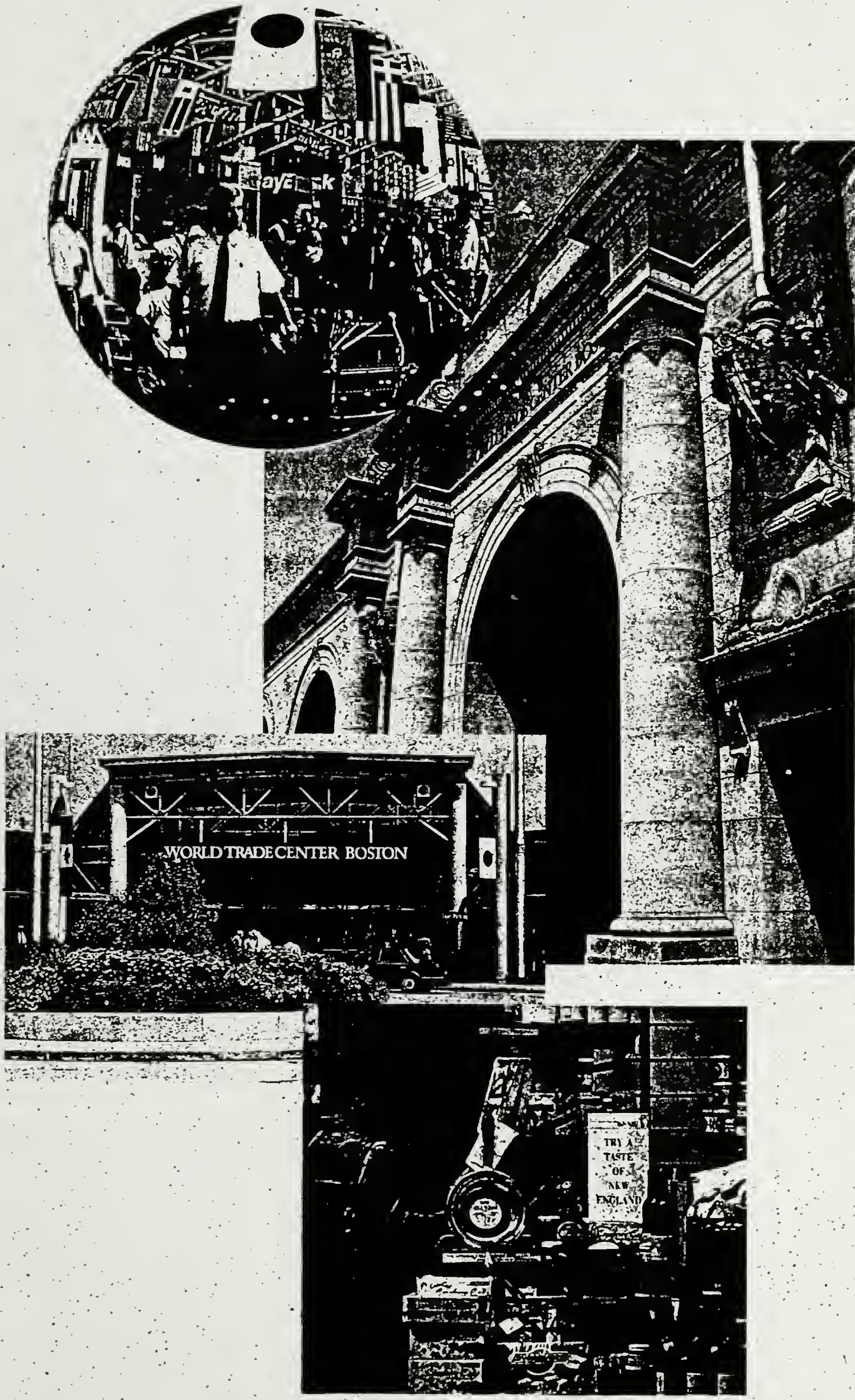
Creating International Business

With the barriers to trade coming down everywhere, Massachusetts businesses have unlimited access to world markets. Providing international knowledge on a local level is what Massport's Trade Development Unit does best. Massport worked with nearly 800 companies last year, generating $53.9 million in projected exports. Massport organized fourteen trade shows and missions; seven industry briefings, eight seminars and conferences, and 33 speaking engagements. On a global scale, Massport was in the right markets in FY 93:

- Overseas offices in London, Tokyo and Berlin, and a network of trade representatives in Taiwan, Singapore, Italy and Mexico City provided international marketing savvy, support and experience to local companies assessing potential new markets.

- Massport organized trade missions to Germany, Italy, Japan, France, England, Taiwan, Singapore, Poland, Egypt, Brazil and Mexico. One telecommunications mission alone to Sao Paulo, Brazil and Mexico City, Mexico resulted in projected sales of $33 million for eight local telecommunications companies.

- Massport plugged into a worldwide trade information network called ACCESS. Developed with the


WORLD TRADE CENTER BOSTON
TRY A TASTE OF NEW ENGLAND

Massachusetts Institute of Social and Economic Research, the system instantly provides trade leads, contacts, statistics, marketing reports and a calendar of international trade events for Massport and any local company that wants to research a specific market.

Trade and Tourism Go Hand in Hand

- During the 1992 Christmas season, Massport organized one of the most ambitious trade and tourism campaigns in New England history. The centerpiece was a six-week Christmas retail promotion at Harrods of London, involving over 110 New England companies and the purchase of more than $4 million worth of New England products. In addition, Massport joined with the six New England states to stage a week-long vacation sales campaign at London's World Travel Market. Promotional efforts in the UK have resulted in a 34 percent increase in bookings from the UK to Boston and New England from last year.

Selling New England

Massport plays an active role in support of the region's tourism industry—a $12 billion business in New England. Last year, Logan Airport and the Black Falcon Cruise Terminal were the gateways for over 11 million arriving passengers—approximately 5 million of whom were visitors. Domestic and international visitors served by these facilities fueled the local economy by nearly $2.1 billion.

In the past three years Massport has expanded its overseas marketing programs by adding two new representatives in France and Italy, providing Massport with a tourism presence in all five of its major markets: the United Kingdom, Japan, Germany, Italy and France. Travel trade familiarization trips, sales promotions, and press outreach in Europe and Japan has netted significant results:

- Since 1990, visitors to Massachusetts have increased from the UK (+60 percent); Germany (+40 percent); France (+9 percent); Italy (+50 percent); and Japan (+74 percent).

- In Europe, Massport works closely with five tour operators in the UK, three in France, three in Italy and two in Germany. Britain's Virgin Holidays sold 105 percent more packages to Boston and New England in 1993 and Airtours Germany is reporting a 300 percent increase in sales.

- In Japan, Massport participates in cooperative programs with 15 tour operators. Called "The Boston Campaign," the aim is to double the number of packages sold last year and to encourage Japanese tourists to stay longer.

Tobin Bridge

Tuned to Traffic

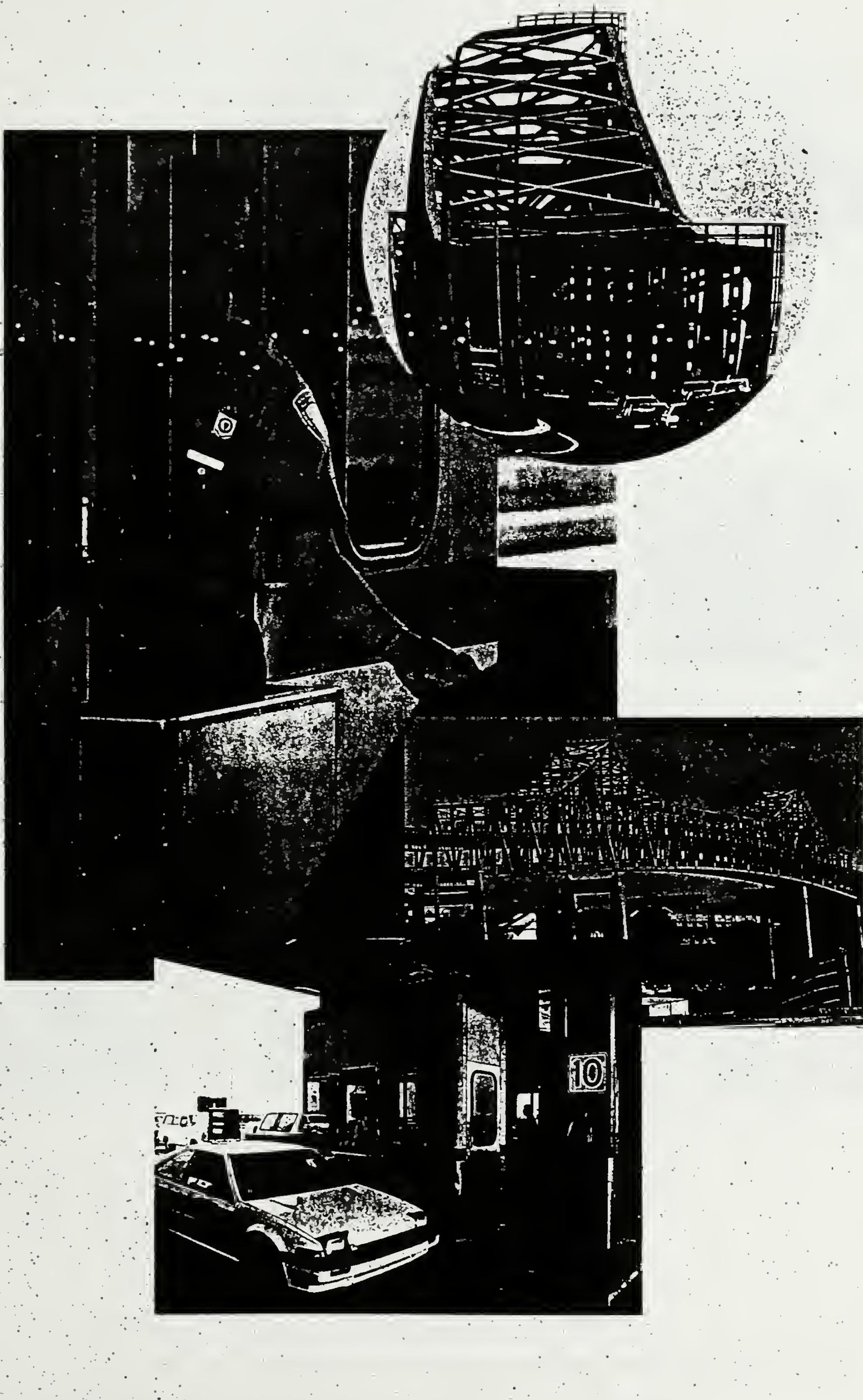
AS THE PRIMARY ROUTE BETWEEN BOSTON AND THE NORTH SHORE, THE TOBIN IS AN IMPORTANT LINK IN A LARGER ROADWAY NETWORK THAT INCLUDES THE CENTRAL NORTH AREA PROJECT (CANA) AND THE FUTURE RECONSTRUCTION OF THE CENTRAL ARTERY. MORE THAN 22 MILLION VEHICLES CROSS THE MYSTIC RIVER EACH YEAR VIA THE TOBIN; STATISTICALLY, THE SAFEST ROADWAY IN THE COMMONWEALTH. IT CONTRIBUTES NEARLY $15 MILLION TO THE AREA ECONOMY THROUGH ITS OPERATION AND MAINTENANCE PROJECTS ANNUALLY.

Like other Massport facilities, the Tobin Bridge is also preparing for the 21st century. Major capital investment in the Tobin Bridge totals close to $35 million, including $10 million for deck rehabilitation, $22 million for structural painting, and $3 million for toll plaza reconstruction.

Smart Tolls and Easy Pass

- In FY 93, the toll plaza was reconstructed to include state-of-the art booths and the installation of a sophisticated toll collection and recording system. The toll plaza had not been updated since its original installation in the late 1940s.

- For 90 days last spring, the Tobin Bridge was temporarily transformed into a toll facility of the future, thanks to a promising new industry advancement, automatic vehicle identification (AVI). AVI uses specially encoded tags to automatically levy a toll against a vehicle without requiring a stop to manually pay a fee. The test included participating vehicles from the Highway Department, the Turnpike Authority, CARAVAN, the MBTA, the State Police, and members of the Mass Motor Transport Association. With interagency cooperation, AVI has statewide and regional implications. Massachusetts' roadways of the future must be totally integrated so that people and goods can move fluidly locally and ultimately into the interstate highway system.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Massport

Board Members

THE MASSPORT BOARD CONSISTS OF SEVEN MEMBERS APPOINTED BY THE GOVERNOR OF MASSACHUSETTS TO STAGGERED TERMS OF SEVEN YEARS EACH. MEMBERS SERVE WITHOUT COMPENSATION.

Richard A. Giesser, chairman, is a management consultant. Term expires 1995.

Paul W. Cronin, vice chairman, is president of Highline Industries, Inc., a manufacturing company headquartered in Lawrence, Massachusetts. Term expires 1998.

Carolyn P. Partan is a real estate attorney at the Boston law firm of Hale and Dorr. Term expires 1996.

Frederick P. Salvucci is a principal research associate at MIT's Center for Transportation Studies. Term expires 1997.

James H. Carangelo is president of Business Planning Associates, an employee benefit sales and consulting firm. Term expires 1999.

George W. Cashman is president and chief executive officer of the International Brotherhood of Teamsters, Local #25 in Charlestown. Term expires 2000.*

Kathleene B. Card is a consultant in the Boston area. Term expires 1994.**

*Mr. George W. Cashman replaces Mr. Charles M. Raso whose term expired in June, 1993.

**Ms. Kathleene B. Card replaces Ms. Jacquelyn R. Smith.

Last spring, Massport was saddened by the loss of Board Member Jacquelyn R. Smith, following a

Report

of Independent Public Accountants

TO THE MEMBERS OF THE MASSACHUSETTS PORT AUTHORITY:

WE HAVE AUDITED THE ACCOMPANYING BALANCE SHEETS OF THE MASSACHUSETTS PORT AUTHORITY (A PUBLIC INSTRUMENTALITY OF THE COMMONWEALTH OF MASSACHUSETTS) AS OF JUNE 30, 1993 AND 1992 AND THE RELATED STATEMENTS OF INCOME, CHANGES IN FUND EQUITY AND CASH FLOWS FOR THE YEARS THEN ENDED. THESE FINANCIAL STATEMENTS ARE THE RESPONSIBILITY OF THE MASSACHUSETTS PORT AUTHORITY'S MANAGEMENT. OUR RESPONSIBILITY IS TO EXPRESS AN OPINION ON THESE FINANCIAL STATEMENTS BASED ON OUR AUDITS.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Port Authority as of June 30, 1993 and 1992, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Arthur Andersen & Co

Boston, Massachusetts
September 30, 1993

Balance Sheets

June 30, 1993 and 1992

ASSETS

	1993	1992
	(in thousands)	
Cash and cash equivalents (Notes A and D)	$ 8,609	$ 9,726
Investments (Notes A and D)	23,407	12,360
Accounts receivable, net of allowance for doubtful accounts of $10,900 and $9,655 in 1993 and 1992, respectively (Note C)	25,520	18,210
Accounts receivable - grants (Note A)	9,911	16,084
Prepayments and other assets, net	9,258	11,595
Assets whose use is limited, including cash and cash equivalents of $27,001 and $14,200 in 1993 and 1992, respectively (Notes A, D, and H)	334,360	272,487
Investment in facilities (Notes A and E):		
Facilities completed	1,134,054	1,028,315
Less accumulated depreciation	(492,300)	(452,297)
	641,754	576,018
Construction in progress	112,394	132,437
Net investment in facilities	754,148	708,455
Total Assets	$1,165,213	$1,048,917
LIABILITIES AND FUND EQUITY		
Liabilities		
Accounts payable and accrued expenses (Note H)	$ 32,890	$ 30,602
Accrued compensated absences (Note A)	7,457	6,608
Accrued pension cost (Note G)	2,857	3,336
Accrued interest payable	18,150	17,575
Funded debt (Note F)	550,123	456,939
Deferred income	2,662	3,710
Total Liabilities	614,139	518,770
Contingent liabilities and commitments (Notes I and K)		
Fund Equity (Notes A and B)		
Accumulated fund equity	449,192	439,965
Contributed capital, grants-in-aid of construction	101,882	90,182
Total Fund Equity	551,074	530,147
Total Liabilities and Fund Equity	$1,165,213	$1,048,917

The accompanying notes are an integral part of these financial statements.

Statements

Of Income

For the years ended June 30, 1993 and 1992

	1993	1992
Revenues (Note B):	(in thousands)	
Tolls, fees and sales of services	**$ 117,429**	$ 112,862
Rentals (Note L)	**55,431**	49,409
Concessions (Note L)	**28,851**	25,511
Income on investments (Note A)	**11,487**	14,158
Other (Note I)	**17,672**	5,465
Total Revenues	**230,870**	207,405
Expenses (Note B):		
Operations and maintenance	**86,402**	77,328
Administration	**38,264**	36,866
Insurance (Note A)	**3,748**	4,087
Pension costs (Note G)	**2,863**	2,586
Interest (Notes A and I)	**26,490**	26,604
Payments in lieu of taxes (Note J)	**6,227**	11,533
Provision for uncollectible accounts	**1,245**	2,392
Depreciation and amortization including $5,281 and $4,046 in 1993 and 1992, respectively, on assets acquired with contributed capital, grants-in-aid of construction (Note A)	**39,261**	35,263
Other, net (Note I)	**10,000**	—
Total Expenses	**214,500**	196,659
Income before extraordinary item	**16,370**	10,746
Extraordinary Item:		
Loss from defeasance of debt (Note F)	**(12,424)**	—
Net Income	**$ 3,946**	$ 10,746

The accompanying notes are an integral part of these financial statements.

Statements

Of Changes In Fund Equity

For the years ended June 30, 1993 and 1992

	Accumulated Fund Equity	Contributed Capital, Grants in Aid of Construction (in thousands)	Total Fund Equity
Balance, June 30, 1991	**$ 425,173**	**$70,772**	**$495,945**
Net income	10,746	—	10,746
Contributed capital, grants-in-aid of construction (Note A)	—	23,456	23,456
Transfer of depreciation to contributed capital	4,046	(4,046)	—
Balance, June 30, 1992	**439,965**	**90,182**	**530,147**
Net income	3,946	—	3,946
Contributed capital, grants-in-aid of construction (Note A)	—	16,981	16,981
Transfer of depreciation to contributed capital	5,281	(5,281)	—
Balance, June 30, 1993	**$ 449,192**	**$101,882**	**$551,074**

The accompanying notes are an integral part of these financial statements

Statements

Of Cash Flows

For the years ended June 30, 1993 and 1992

	1993	1992
	(in thousands)	
Cash Flows from Operating Activities:		
Cash received from customers	$ 199,512	$ 188,655
Cash payments:		
To vendors for goods and services	(80,048)	(73,290)
To employees for services	(51,175)	(47,420)
Payments in lieu of taxes	(6,227)	(11,533)
Net cash provided by operating activities	62,062	56,412
Cash Flows from Capital and Related Financing Activities:		
Grants-in-aid of construction	23,153	13,969
Acquisition and construction of capital assets	(99,704)	(75,023)
Proceeds from sale of bonds	199,250	—
Principal paid on refunded debt	(90,045)	—
Principal paid on funded debt	(7,800)	(6,355)
Interest paid on funded debt	(35,609)	(34,981)
Proceeds from interest rate swap termination	2,149	—
Net cash used for capital and related financing activities	(8,606)	(102,390)
Cash Flows from Investing Activities:		
Purchases of investments	(1,271,303)	(1,290,113)
Proceeds from sale and maturities of investments	1,215,757	1,310,767
Interest on investments	13,774	14,726
Net cash (used for) provided by investing activities	(41,772)	35,380
Net Increase (Decrease) in Cash and Cash Equivalents	11,684	(10,598)
Cash and Cash Equivalents, Beginning of Year	23,926	34,524
Cash and Cash Equivalents, End of Year	$ 35,610	$ 23,926
Noncash Activities:		
Disposal of fully depreciated building (Note I)	$ —	$ 4,900

The accompanying notes are an integral part of these financial statements

Statements

Of Cash Flows, continued

For the years ended June 30, 1993 and 1992

	1993	1992
Reconciliation of net income to net cash provided by operating activities:	(in thousands)	
Net income	**$ 3,946**	$ 10,746
Less: income on investments	**(11,487)**	(14,158)
Add: interest expense	**26,490**	26,604
extraordinary loss from defeasance of debt	**12,424**	—
	31,373	23,192
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	**39,261**	35,263
Provision for uncollectible accounts	**1,245**	2,392
Change in assets and liabilities:		
Increase in accounts receivable	**(8,555)**	(4,797)
Increase (decrease) in prepaid expenses and other	**(2,486)**	696
Increase (decrease) in accounts payable and accrued expenses	**1,902**	(2,079)
Increase in accrued compensated absences	**849**	544
Decrease in accrued pension cost	**(479)**	(451)
(Decrease) increase in deferred income	**(1,048)**	1,652
Total adjustments	**30,689**	33,220
Net cash provided by operating activities	**$ 62,062**	$ 56,412

The accompanying notes are an integral part of these financial statements.

Notes

To Financial Statements

The Massachusetts Port Authority (the Authority) is a public instrumentality created by an act of the Legislature (the Enabling Act) of the Commonwealth of Massachusetts (the Commonwealth), effective June 21, 1956. The Authority controls, operates and manages Boston-Logan International Airport (Logan Airport), Hanscom Field, Maurice J. Tobin Memorial Bridge (Tobin Bridge) and other facilities in the Port of Boston. The Authority has no stockholders or equityholders. The provisions of the Enabling Act and the 1978 Trust Agreement (the Trust Agreement) with the Authority's bondholders govern the disposition of cash revenues to the various funds established under the Trust Agreement and restrict the use of such revenues credited to the various funds.

A. Summary of Significant Accounting Policies:

These financial statements have been prepared in conformity with generally accepted governmental accounting principles.

(1) Assets Whose Use Is Limited
The balance sheet caption, "assets whose use is limited," represents restricted or trusteed assets under the Trust Agreement that are earmarked to fund certain activities of the Authority such as construction of new facilities and debt service. Assets to fund deferred compensation are included under this caption (See Note D).

(2) Statements of Cash Flows
For purposes of the statements of cash flows, the Authority considers all highly liquid investments (including assets whose use is limited) with a maturity of 30 days or less when purchased to be cash equivalents.

(3) Investments
Investments in U.S. Government and agency securities are recorded at amortized cost, which approximates market value including accrued interest. Investments in repurchase agreements are recorded at cost including accrued interest.

(4) Self-Insurance
The Authority, as mandated by the Trust Agreement, maintains a self-insurance account within the operating fund. The Authority is self-insured for certain major catastrophe-type risks and workmen's compensation claims (effective January 1, 1993), but maintains insurance coverage for claims in excess of established limits. Investments used to fund self-insurance claims are included within "assets whose use is limited" in the accompanying balance sheets. (See Notes D and K).

(5) Investment in Facilities
Facilities are carried at cost and include the expenditure of federal grants-in-aid of construction and the cost of significant renewals and betterments. Federal grants-in-aid of construction are recorded as contributed capital as earned and amortized on the straight-line method over the estimated useful service lives of the related assets. Expenditures for repairs and maintenance are charged to expense as incurred.

(6) Depreciation
Depreciation is provided on the straight-line method based on estimated useful service lives of the related assets beginning in the fiscal year of acquisition or during completion of construction. Depreciation is computed on facilities which are recorded in the accounts of the Authority, including those financed by grants-in-aid of construction.

(7) Interest Capitalization
The Authority capitalizes certain interest associated with the cost of restricted tax-exempt borrowings, less any interest earned on temporary investment of the proceeds of those borrowings during the period of construction. Interest on borrowings of $9,694,000 and $8,171,000, reduced by interest on investments of $2,908,000 and $3,840,000 for the years ended June 30, 1993 and 1992, respectively, has been capitalized as a part of the cost of construction projects.

Notes

To Financial Statements (continued)

A. Summary of Significant Accounting Policies, continued:

(8) Accounting for Compensated Absences
The Authority accrues for vacation and sick pay when it is earned. The liability for vested vacation and sick pay is reflected in the accompanying balance sheets under the caption "accrued compensated absences."

(9) Financial Statement Reclassification
Certain accounts in the June 30, 1992 financial statements have been reclassified to conform with the June 30, 1993 presentation.

B. Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the Trust Agreement:

The provisions of the Enabling Act and the Trust Agreement with the Authority's bondholders prescribe certain accounting practices to be followed in maintaining the accounts and records of the Authority.

Under the Trust Agreement, monthly cash revenues of the Authority, after providing for required debt service costs on the Revenue Refunding Bonds, Series 1978, from pledged revenues, are transferred to the Operating Fund. After providing for operating expenses, including pension expense and transfers to the self-insurance account, cash revenues are then transferred to the Interest and Sinking Fund (which are applied to debt service on any outstanding bonds other than the Revenue Refunding Bonds, Series 1978), the Maintenance Reserve Fund, the Payment In Lieu of Taxes Fund and the Improvement and Extension Fund. Cash and investments held in the Improvement and Extension Fund, to the extent designated by the Authority, are transferred to the Capital Budget Account.

Under the provisions of the Trust Agreement, all revenues derived from the operation of the Tobin Bridge, all aircraft landing fees and motor vehicle parking fees derived from the operations of the airport properties and all income from investments held in all funds with the exception of the Construction Funds, Port Properties Fund and self-insurance account are pledged for the debt service requirements of the Revenue Refunding Bonds, Series 1978.

To the extent that pledged revenues exceed debt service requirements, they are available to meet operating expenses and for transfer to other funds. To the extent unexpended, these amounts continue to be available for the debt service requirements in any year.

Notes

To Financial Statements (continued)

B. Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the Trust Agreement, continued:

Presented below are the 1993 and summary 1992 revenue and operating expenses as determined in accordance with the Trust Agreement and a reconciliation to net income as presented in the accompanying Statements of Income under generally accepted governmental accounting principles (GAGAP).
(For Trust accounting purposes, the provision for uncollectible accounts is netted within the revenues caption.)

	Bridge	Airport Properties	Port Properties: Maritime	Port Properties: Development*	Facilities Management	Income on Investments	1993 Total	1992 Total
				(in thousands)				
Revenues, Net:								
1978 Pledged Revenues	$ 5,237	$ 80,305	$ —	$ —	$ —	$ 10,720	**$ 96,262**	$ 96,380
Other	—	91,650	22,394	5,960	154	—	**120,158**	107,418
	5,237	171,955	22,394	5,960	154	10,720	**216,420**	203,798
Operating Expenses:								
Operations and Maintenance	3,157	63,416	17,502	2,312	15	—	**86,402**	77,328
Administration	2,494	28,285	5,195	2,175	115	—	**38,264**	36,866
Insurance	453	2,798	799	324	24	—	**4,398**	4,374
Pension (Note G)	212	2,571	408	147	4	—	**3,342**	3,037
	6,316	97,070	23,904	4,958	158	—	**132,406**	121,605
Excess (Deficit) of Revenues Over Operating Expenses Under Trust Agreement	(1,079)	74,885	(1,510)	1,002	(4)	10,720	**84,014**	82,193
Add: Self-Insurance Cost (1)	35	494	96	25	—	—	**650**	287
Pension Adjustment (1)	26	364	71	18	—	—	**479**	451
Difference on Sale of Equipment (2)	—	139	—	—	—	—	**139**	207
Income on Self-Insurance Investments (3)	—	—	—	—	—	767	**767**	858
Interest Rate Swap Termination Fees (3)	266	1,361	439	83	—	—	**2,149**	—
Gain From Taking of Land (3)	—	—	—	10,000	—	—	**10,000**	—
Credit Enhancement Fees (3)	—	150	—	—	—	—	**150**	150
Less: Payments In Lieu of Taxes (4)	(332)	(4,799)	(824)	(272)	—	—	**(6,227)**	(11,533)
Lease Restructuring and Parking Garage Escrow (4)	—	—	—	(10,000)	—	—	**(10,000)**	—
Loss from Defeasance of Debt	(1,554)	(6,290)	(3,873)	(707)	—	—	**(12,424)**	—
Interest Expense (4)	(3,282)	(16,781)	(5,409)	(1,018)	—	—	**(26,490)**	(26,604)
Depreciation and Amortization (4)	(3,192)	(26,796)	(5,598)	(3,675)	—	—	**(39,261)**	(35,263)
Net Income (Loss)	$ (9,112)	$ 22,727	$ (16,608)	$ (4,544)	$ (4)	$ 11,487	**$ 3,946**	$ 10,746

* Development includes activities related to the Authority's alternative use program, principally for Commonwealth Pier, Fish Pier and Hoosac Pier.

(1) Expensed under Trust Agreement, not an expense under GAGAP.

(2) Equipment is depreciated under GAGAP but not under Trust Agreement.

(3) Not revenue under Trust Agreement, revenue under GAGAP.

C. Accounts Receivable:

The following details the components of the Authority's accounts receivable at June 30, 1993. Summary 1992 information is also presented.

	Accounts Receivable	Allowance	Accounts Receivable, Net of Allowance	
			1993	1992
			(in thousands)	
Accounts Receivable - Trade	$23,299	$ (3,416)	**$ 19,883**	$17,951
Amounts Due From Bankrupt Customers	7,195	(7,195)	**—**	—
Amounts Due From the Massachusetts Highway Department (Note I)	5,926	(289)	**5,637**	259
Total	$36,420	$ (10,900)	**$ 25,520**	$18,210

Notes

To Financial Statements (continued)

D. Cash, Cash Equivalents and Investments:

The following summarizes the Authority's cash, cash equivalents and investments at June 30, 1993 by the various funds and accounts established under the Trust Agreement with the Authority's bondholders. Summary 1992 information is also presented. (Assets designated for credit enhancement and deferred compensation are also included.)

Use defined for specific purposes:	Cash and Cash Equivalents	Investments	Assets Whose Use Is Limited: Cash, Cash Equivalents and Investments	**1993 Total**	1992 Total
				(in thousands)	
1978 Debt Service Fund	$ —	$ —	$ 32,698	**$ 32,698**	$ 32,453
Operating Fund	4,637	—	628	**5,265**	5,549
Self-insurance Account	—	—	17,067	**17,067**	15,369
Maintenance Reserve	—	—	69,382	**69,382**	63,484
Payments In Lieu of Taxes	—	—	3,694	**3,694**	3,529
Capital Budget	—	—	58,360	**58,360**	57,096
Improvement and Extension Fund	3,972	23,407	431	**27,810**	18,049
1985 Interest and Sinking Fund	—	—	11,003	**11,003**	12,611
1988 Interest and Sinking Fund	—	—	13,007	**13,007**	13,548
1988 Construction Fund	—	—	—	**—**	23
1990 Interest and Sinking Fund	—	—	11,876	**11,876**	10,459
1990 Construction Fund	—	—	11,727	**11,727**	43,545
1992 Interest and Sinking Fund	—	—	7,676	**7,676**	—
1992 Construction Fund	—	—	73,160	**73,160**	—
1993 Interest and Sinking Fund	—	—	2,207	**2,207**	—
1993 Project Fund	—	—	302	**302**	—
Credit Enhancement Account (Note I)	—	—	9,925	**9,925**	9,952
	8,609	23,407	323,143	**355,159**	285,667
Deferred Compensation (Note H)	—	—	11,217	**11,217**	8,906
Total	$8,609	$23,407	$334,360	**$ 366,376**	$294,573

The carrying amount of the Authority's cash deposits was $1,526,000 and $1,237,000 at June 30, 1993 and 1992, respectively. The bank balance was $2,081,000 and $3,657,000 at June 30, 1993 and 1992, respectively. The nature of the reconciling items between the book and bank balances consisted primarily of outstanding checks which had not cleared the bank at year-end. The bank balance was fully collateralized as of June 30, 1993 and 1992 to the extent not insured.

D. Cash, Cash Equivalents and Investments, continued:

The following summarizes the Authority's cash and investments by type held at June 30, 1993. Summary 1992 information is also presented.

	Carrying Amount	Market Value
	(in thousands)	
Certificates of Deposit	$ 101	$ 101
Repurchase Agreements	69,684	69,683
U.S. Government and Agency Securities:		
Treasury Notes	148,382	149,326
Treasury Bills	36,027	36,219
Federal Farm Credit (FFC)	11,468	11,584
Federal National Mortgage Association (FNMA)	41,796	41,749
Federal Home Loan Bank (FHLB)	28,096	28,254
Federal Home Loan Mortgage Corp. (FHLMC)	10,199	10,217
U.S. Treasury Zero Coupon	6,877	6,914
Total U.S. Government and Agency Securities	282,845	284,263
Fidelity U.S. Treasury Income Portfolio Mutual Fund	1,003	1,003
Total investments	353,633	355,050
Cash in bank	1,526	1,526
Total at June 30, 1993	**$355,159**	**$356,576**
Total at June 30, 1992	**$285,667**	**$288,262**

The Authority is authorized by the Trust Agreement to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, in bonds or notes of public agencies or municipalities, in bank time deposits and in repurchase agreements. All investments, including repurchase agreements, are registered and held on behalf of the Authority by the Authority's Trustee and custodian.

The Certificates of Deposit are fully insured by the Federal Depository Insurance Corporation. Repurchase agreements are collateralized by obligations of the U.S. Government or agencies of the U.S. Government. The Trust Agreement requires that securities underlying repurchase agreements must have a market value at least equal to the cost of the agreement plus accrued interest. The Fidelity U.S. Treasury Income Portfolio Mutual Fund is not guaranteed by the U.S. Government.

Notes

To Financial Statements (continued)

E. Investment in Facilities and Depreciation:

Net investment in facilities at June 30, 1993 and 1992 is comprised of:

	1993	1992
Facilities completed by operation:	(in thousands)	
Airports	$ 778,221	$ 683,282
Bridge	86,611	86,058
Port	269,222	258,975
Investment in facilities	$ 1,134,054	$1,028,315
Facilities completed by type:		
Land and land improvements	$ 113,247	$ 112,500
Bridge and bridge improvements	83,947	83,641
Buildings	617,386	533,353
Runways and other paving	257,660	248,604
Machinery and equipment	61,814	50,217
	$ 1,134,054	$1,028,315
Accumulated depreciation and amortization	(492,300)	(452,297)
	641,754	576,018
Construction in progress	112,394	132,437
Net investment in facilities	$ 754,148	$ 708,455

Estimated useful asset lives used in the calculation of depreciation are as follows:

Bridge	100 years
Bridge improvements	10 and 25 years
Airport facilities - buildings, runways and other paving	10 and 25 years
Port facilities - buildings and piers	25 years
Machinery and equipment	10 years

In August of 1993, the Authority received approval from the Federal Aviation Administration (FAA) to impose a $3.00 passenger facility charge (PFC) at Logan Airport, effective November 1, 1993. PFCs collected by the Authority can be used for capital projects determined by the FAA to be eligible in accordance with the Aviation Safety and Capacity Expansion Act of 1990. The Authority may collect net PFCs up to $598,800,000 for the period of November 1, 1993 through October 1, 2011. The FAA has approved PFC funding for eleven proposed projects that will comprise a significant portion of the Logan capital projects program. The Authority may leverage the PFC proceeds through bond offerings to the extent necessary to construct eligible projects.

F. Funded Debt:

The following is a summary of the Authority's funded debt activity for the years ended June 30, 1993 and 1992:

	1993	1992
	(in thousands)	
Funded debt, beginning of year	**$ 459,340**	$ 465,695
New debt issued	**199,250**	—
Debt refinanced	**(90,045)**	—
Principal paid on funded debt	**(7,800)**	(6,355)
Funded debt, end of year	**$ 560,745**	$ 459,340

Funded debt at June 30, 1993 and 1992 is comprised of the following:

	Weighted Average Interest Rate at June 30, 1993	1993	1992
Revenue Refunding Bonds		(in thousands)	
Series 1978	6.8%	**$ 27,735**	$ 32,280
Series 1985 - A & B	8.6%	**3,320**	11,950
Series 1993 - A & B	5.0%	**56,780**	—
Revenue Bonds			
Series 1988-A	7.1%	**4,350**	22,540
Series 1990-A	7.1%	**21,780**	22,800
Series 1992 - A & B	5.2%	**24,955**	—
Term Bonds	6.9%	**421,825**	369,770
Total Funded Debt		**560,745**	459,340
Less: Original Issue Discount		**(10,622)**	(2,401)
Total		**$550,123**	$ 456,939

Scheduled principal payments on funded debt are as follows:

Fiscal Year	Amount (in thousands)
1994	$ 8,310
1995	11,315
1996	12,005
1997	12,780
1998	13,545
Thereafter	502,790
Total	$ 560,745

F. Funded Debt, continued:

On March 15, 1993, the Authority issued $107.5 million in Revenue Refunding Bonds with interest rates of 2.75% to 5.625% to advance refund $90 million of outstanding 1985 and 1988 term bonds with an average interest rate of 7.9%. The net proceeds of $100.5 million, after original issue discounts of $5.7 million and $1.3 million of underwriting fees and other issuance costs, were used to purchase U.S. Government and Agency Securities. Those securities were placed in an irrevocable trust with an escrow agent to provide for the future debt service payments of the refunded portion of the 1985 and 1988 bonds. As a result, approximately 67.6% of the 1985 bonds and 43.7% of the 1988 bonds are considered to be defeased and the liability for those bonds has been removed from the Authority's funded debt.

Although the advance refunding resulted in the recognition of an accounting loss of $12.4 million for the year ended June 30, 1993, the Authority will reduce its aggregate debt service payments by approximately $29 million over the next 26 years and achieve an economic gain (the difference between the present values of the old and new debt service payments) of $15.3 million.

Additionally, in prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with the Trustee for such bonds to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 1993, the following bonds outstanding are considered defeased:

	(in thousands)
1964 Series	$ 29,910
1969 Series	46,195
1971 Series	59,840
1973 Series	83,335
1982 Series	51,700
1985 Series	47,450
1988 Series	42,595
Total Defeased Bonds	$361,025

G. Pension Costs:

In July 1978, the Massachusetts legislature passed legislation which was enacted as Chapter 487 of the "Massachusetts Acts of 1978" and signed into law on July 18, 1978. This enactment provided for the establishment of the "Massachusetts Port Authority Employees' Retirement System" (the Plan), a contributory retirement system that is separate from the Massachusetts State Employees' Retirement System. Prior to this enactment, Authority employees were members of the state employees' system, and the funding of the pension liability was on a "pay-as-you-go" method. Pursuant to this enactment, the employees' rights and benefits under the state plan were transferred to the new system, and the Authority established a separate pension fund. The Plan was established to provide retirement benefits for substantially all employees of the Authority and incidental benefits for their surviving spouses, beneficiaries and contingent annuitants. The Authority funds pension costs based on the actuarially determined annual pension expense which includes current service cost and the amortization, over a 20-year period, of unfunded prior service costs. This annual pension contribution, as actuarially determined, includes a factor for the reimbursement to the Commonwealth for amounts expended by the Commonwealth on account of the Authority's employees retired prior to January 1, 1979.

The Authority's covered payroll for members of the Plan as of the most recent actuarial valuation dates was approximately $40,379,595 as of January 1, 1993. Total payroll for Authority employees was $49,329,331 for the year ended June 30, 1993.

The actuarial cost method utilized to determine contributions to the Plan for the years ended December 31, 1992 and 1991 is the entry age normal-frozen initial liability cost method.

G. Pension Costs, continued:

The more significant actuarial assumptions underlying the actuarial computations for the years ended December 31, 1992 and 1991 are as follows:

Assumed rate of return on investments and discount rate for pension benefit obligations	-	8.0% per annum compounded annually
Nondisabled life mortality basis	-	1983 Group Annuity Mortality Table for males for 1992; the 1971 Group Annuity Mortality Table for males and the same table with ages set back six years for females for 1991
Employee turnover basis	-	Based on an actuarial table developed from statewide experience for 1992; and actuarial table T-5 from the Pension Actuaries Handbook for 1991
Salary escalation	-	6.0% per annum
Retirement	-	Age 63 or age as of the valuation date if later for Group 1 and 2 employees (non-firefighters) in 1991 and 1992
	-	Age 55 for Group 4 employees (firefighters) in 1992 and age 63 or age as of the valuation date if later in 1991
Retirement benefits	-	2.3% per year of service for Group 1 and 2; 2.5% per year of service for Group 4
Postretirement cost of living increases	-	4.5% per annum compounded annually on the first $9,000 of pension benefits

G. Pension Costs, continued:

The amount shown below as "pension benefit obligation" (PBO) is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other Public Employee's Retirement Systems Plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan.

At January 1, 1993, the assets in excess of the PBO were $30,406,000, determined as follows:

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	(in thousands) $ 26,872
Current employees:	
Employee financed	23,698
Employer financed-vested	4,493
Employer financed-nonvested	28,737
Total pension benefit obligation	83,800
Net assets available for benefits, (market value of $116,549)	114,206
Assets in excess of pension benefit obligation	$ 30,406

G. Pension Costs, continued:

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due and fund operating costs of the Plan. The Plan also amortizes the unfunded actuarial accrued liability in level amounts over a period of 20 years.

Total contributions to the Plan were $6,068,161 for the Plan year ended December 31, 1992. This includes employee contributions of $2,868,661 which are based upon a percentage of employee base pay (5% for employees hired before December 31, 1974, 7% for employees hired between January 1, 1975 and December 31, 1983 and 8% for employees hired after December 31, 1983 and, effective January 1, 1988, an additional 2% of base pay over $30,000 for those employees hired after December 31, 1978) and employer contributions of $3,199,500 which were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed for the Plan's fiscal year beginning January 1, 1992. Employer contributions consisted of (a) $610,000 normal cost, (b) $2,292,000 amortization of the unfunded actuarial accrued liability and (c) $297,500 funding for operating costs.

The contributions made by the employees and employer of covered payroll during the last three years are as follows:

Plan Year	Employees	Employer
1990	8%	9%
1991	7%	8%
1992	7%	8%

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed above.

Set forth below is a table listing six-year historical trend information of the Plan. (Trend information related to plan years 1983 through 1986 is unavailable.)

Plan Year	(1) Net Assets Available for Benefits	(2) PBO	(3) Percentage Funded (1) / (2)	(4) Assets in Excess of PBO (1) - (2)	(5) Annual Covered Payroll	(6) Assets in Excess of PBO as a Percentage of Annual Covered Payroll (4) / (5)
			(in thousands)			
1987	$ 47,700	$ 43,661	109%	$ 4,039	$ 21,268	19%
1988	54,212	50,274	108%	3,938	25,975	15%
1989	63,151	58,914	107%	4,237	25,998	16%
1990	76,687	63,937	120%	12,750	29,397	43%
1991	83,228	72,779	114%	10,449	31,575	33%
1992	114,206	83,800	136%	30,406	40,380	75%

G. Pension Costs, continued:

Analysis of the dollar amounts of net assets available for benefits, PBO and assets in excess of the PBO, in isolation, can be misleading. Expressing the net assets available for benefits as a percentage of the PBO provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Public Employee Retirement System. Trends in assets in excess of PBO and annual covered payroll are both affected by inflation. Expressing the assets in excess of PBO as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due.

For the financial statements prepared in accordance with generally accepted governmental accounting principles, pension expense includes current service cost and amortization of past service costs which were determined as of July 1, 1973, over a 25-year period, commencing in 1974. Total pension expense so determined was $2,863,000 and $2,586,000 for the years ended June 30, 1993 and 1992, respectively.

In addition to providing pension benefits, the Authority provides certain health care benefits for approximately 246 retired employees through insurance company contracts. The Authority recognizes the cost of providing those benefits by expensing the insurance premiums when paid. This expense was $962,000 and $885,000 for the years ended June 30, 1993 and 1992, respectively.

H. Deferred Compensation:

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Authority (without being restricted to the provisions of benefits under the plan), subject only to the claims of the Authority's general creditors. Participants' rights under the plan are equal to those of general creditors of the Authority in an amount equal to the fair market value of the deferred account for each participant. It is the opinion of the Authority's legal counsel that the Authority has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Authority believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

The market value of the deferred compensation plan assets and the total amount of deferred compensation, including income earned, were $11,217,000 and $8,906,000 at June 30, 1993 and 1992, respectively. These amounts are included in the accompanying balance sheets under the captions "assets whose use is limited" and "accounts payable and accrued expenses."

I. Contingent Liabilities and Commitments:

Contractual Obligations for Construction:
Contractual obligations for construction were approximately $149,808,000 at June 30, 1993.

Forward Interest Rate Swap:
In fiscal 1993, the Authority entered into a forward interest rate swap arrangement in the initial notional amount of $71,715,000 which will take effect on July 1, 1995 for the seven-year period ending June 30, 2002 with a portion continuing through December 31, 2002. Under this arrangement, the Authority will pay interest at 6.405% per annum and receive interest at a floating rate. The Authority intends to redeem the 1985 Bonds and 1988 Bonds that were not advance refunded with the proceeds of the 1993 Bonds on or before July 1, 1995 with floating rate tax-exempt refunding bonds in order, as nearly as practicable, to match the floating rate interest received under the swap arrangement. This arrangement modified and replaced the forward interest rate swap arrangement which existed at June 30, 1992. The Authority received approximately $2,149,000 as a result of terminating the previous interest rate swap agreement. This amount is included within other revenue on the accompanying statements of income.

The Authority does not anticipate any losses over the term of this agreement.

Credit Enhancement Agreement:
During fiscal 1991, the Authority entered into a credit enhancement agreement in connection with an unrelated partnership's bond issuance. The bonds were issued to provide financing to the partnership (the Borrower) for construction, which was completed in fiscal 1993, of a conference center and hotel located at Logan Airport. The credit enhancement agreement represents a guarantee by the Authority to pay bondholders up to $9.7 million, in the event the Borrower does not have sufficient funds (as defined) to meet its debt service requirements.

In the opinion of the Authority's management, an advance against the credit enhancement agreement may occur during the next 24 months; any such advance, then taking the form of a loan from the Authority to the Borrower, would be repaid at 10% interest.

Third Harbor Tunnel:
The Massachusetts Highway Department (MHD), is in the process of extending the eastern terminus of the Massachusetts Turnpike to Logan Airport by constructing a new tunnel under Boston Harbor. The Authority is not responsible for the construction of the project or for its financing and is under no obligation to assume any responsibility for such matters or for the operation of the tunnel.

The Third Harbor Tunnel Project (the Tunnel Project) affects the Authority in a variety of ways. The effects include the necessity of eminent domain takings or land acquisitions by the MHD of certain real property in South Boston and Logan Airport to accommodate the construction and operation of the Tunnel Project. On October 3, 1991, the Authority and the MHD entered into a Sale/Mitigation Agreement (the Agreement) to establish a framework for land acquisitions by the MHD for the Tunnel Project. Specifically, the Agreement provides for acquisitions of Authority land by purchase by the MHD, coupled with mitigation by the MHD of the effects of such acquisitions. Mitigation will include, for example, provision of replacement parking, construction of temporary roadways and payment of increased operating expenses and lost revenues. In addition, the Agreement provides that the Authority

I. Contingent Liabilities and Commitments, continued:

will retain substantial rights in the land acquired by the MHD; air and development rights over the below-ground surface portions of the Tunnel Project, for example. Moreover, the Agreement provides that the MHD perform necessary hazardous waste remediation associated with the land acquired for the Tunnel Project. The Authority expects that the acquisitions will not ultimately result in any material change in its financial position.

In January 1993, the Authority received $10,000,000 from the MHD for a taking of land by eminent domain in connection with construction of the Tunnel Project. The Authority paid approximately $7,233,000 of the proceeds to a tenant as part of a restructured lease agreement, to mitigate the impact of the acquisition by the MHD. The remaining $2,767,000 was deposited in escrow as an incentive for the tenant to construct a parking facility. If the facility is not built, these funds will revert back to the Authority. The receipt and payment of the $10,000,000 are reflected on the accompanying Statements of Income as other revenues and other expenses, respectively.

In August 1993, the Authority entered into a Second Agreement and Waiver with the MHD involving the permanent and temporary takings of certain properties at the Logan Airport. Under the agreement, the Authority is to receive $16,000,000 for the takings, including reimbursement for the permanent and temporary loss of revenues and additional operating expenses which amount to $5,638,000 in fiscal 1993. Accordingly, the Authority, in fiscal 1993, recognized revenue of approximately $2,643,000 and reduced expenses by approximately $2,995,000 as an offset to the additional operating expenses.

The total amount to be received from the MHD for the takings described above will be subject to an offset of up to $5,000,000 for remediation of hazardous materials of such properties. This offset, when determined, will be applied against the proceeds to be received from future takings.

J. Payments In Lieu of Taxes:

The Enabling Act authorizes and directs the Authority, subject to certain standards and limitations, to enter into agreements to make annual payments in lieu of taxes to Boston, Chelsea and Winthrop. In fiscal 1992, the Authority's obligation to Chelsea for annual in lieu of tax-payments through 2012 was satisfied by a payment of $5,000,000. For fiscal 1994, it is anticipated that the payments pursuant to these agreements and annual extensions shall be approximately $6,227,000; of which approximately $211,000 is subject to an annual adjustment in accordance with an index related to the consumer price index and Logan Airport commercial passenger enplanements.

The agreements extend from 1995 through 2012 and may be further extended. The annual payments are not to exceed the balance of revenues remaining after deposits to the 1978 Debt Service Fund, payment of operating expenses, deposits to the 1985, 1988 and 1990 Interest and Sinking Funds and deposits to the Maintenance Reserve Fund.

K. Litigation:

Potential Logan Airport Soil and Groundwater Contamination:

In April 1991, the Massachusetts Department of Environmental Protection (DEP) sent the Authority a Notice of Responsibility under M.G.L. c. 21E, Section 5(a) alleging that there have been releases of oil and hazardous materials at Logan Airport and that, as the owner of Logan Airport, the Authority is a "responsible party" liable for the costs of investigating, assessing and remediating soil and groundwater contamination at Logan Airport. The Authority has completed its Phase I Limited Site Investigation under the Massachusetts Contingency Plan and has submitted its Phase II Comprehensive Site Investigation to DEP for review. While the full nature and extent of releases and any necessary remedial and cleanup measures have yet to be determined, response costs under c. 21E may be substantial. The Authority, however, expects to be able to recoup some of its costs of compliance with c. 21E from third parties who are responsible for the contamination and from liability insurance carriers who provided coverage to the Authority. The Authority expects to recover any remaining costs of compliance through rates and charges levied upon users of Logan Airport.

In addition, the Authority is a defendant in a number of legal proceedings arising in the normal course of business. Management, after reviewing all actions and proceedings pending against or involving the Authority with legal counsel, believes that the aggregate liability or loss, if any, resulting from the final outcome of those proceedings will not materially affect the Authority's financial statements.

L. Leases:

The Authority leases a major portion of its Aviation and Port Properties to various tenants. Most of these operating leases provide for periodic adjustments to rental rates. In addition, certain of the lease agreements contain provisions for contingent payments based on a specified percentage of the tenant's gross revenue. Rental income from contingent payments received under these provisions was approximately $26,669,000 and $21,536,000 for 1993 and 1992, respectively.

Minimum future rental income, excluding contingent rentals, from noncancelable operating leases as of June 30, 1993 are:

Year	Amount (in thousands)
1994	$ 21,325
1995	19,871
1996	19,096
1997	18,416
1998	17,496
Thereafter	275,295
Total	$ 371,499

M. Related Party Transactions:

The Authority has a lease agreement with the Commonwealth for office space at the State Transportation Building which expires on June 30, 1995. The Authority paid rental fees of approximately $1,463,000 for the year ended June 30, 1993. The Authority's commitments to the Commonwealth for this lease are approximately $1,420,000 and $1,472,000 for 1994 and 1995 respectively.

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Tel: (413) 787-1541
Fax: (413) 731-8530

MASSPORT/LONDON
1 Hay Hill
London WIX 7LF, England
Tel: 44 (71) 495-1978
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Fax: 44 (71) 409-3053

MASSPORT/FAR EAST
New Diamond Building
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Chiyoda-Ku, Tokyo 100
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Tel: (03) 506-9002
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MASSPORT/BERLIN
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Alt-Moabit 103
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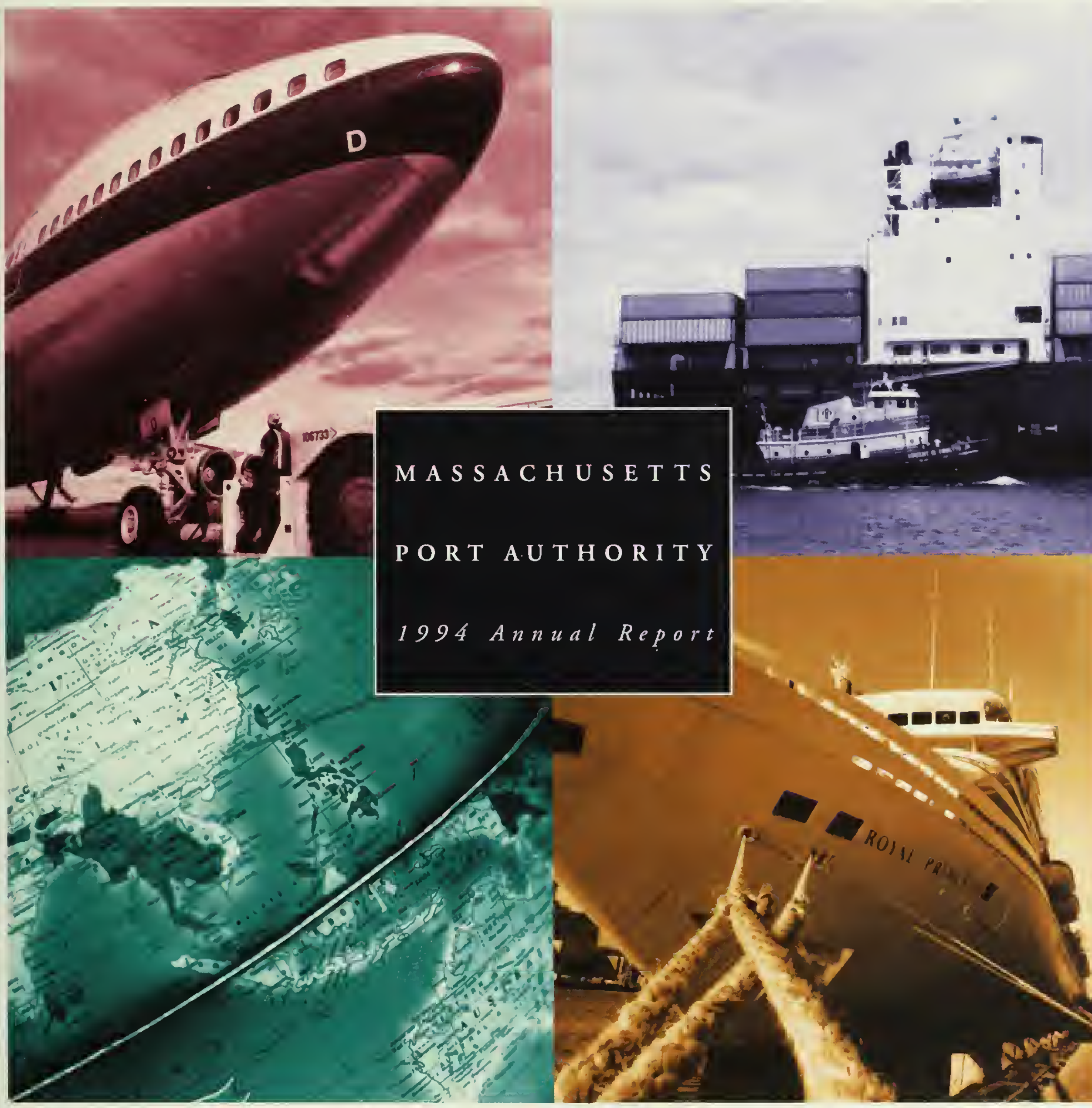
massport



MASSACHUSETTS PORT AUTHORITY

1994 Annual Report

Message from the Executive Director

This edition of the Annual Report catalogs the results from a demanding year of intensive, top-to-bottom review of how and why we do business at Massport. Fiscal Year 1994 — my first as Executive Director/CEO — marked the beginning of a comprehensive Authority-wide review of policies, programs and internal systems with an eye toward an even better Massport. We also developed a new mission statement that sets a course for significant contributions to our region for the 21st century.

What does this mean for our customers? For travelers at Logan International Airport, it means new concessions that offer regional cuisine in Terminal C, the elimination of rental fees for luggage carts in the international terminal and a new "Taxi Improvement Program" to ensure clean, safe and reliable taxi service. For New England shippers, it means the best possible routes to and from Europe, a new Boston-Mexico route, and "flex-time" service at Moran Container Terminal. For residents of neighborhoods affected by Massport operations, it means improving environmental benefits and substantial increases in our soundproofing program.

Given the vast responsibilities Massport has as New England's gateway to the world, I believe these improvements in service make a real difference for our region's economic growth. Fiscal Year 1994 saw record passenger levels at Logan, record cargo volume at the Port and record cruise numbers at Black Falcon Terminal. Massport's impact on the local economy grew to over $7 billion, with some 25,000 jobs generated by our operations.

AIRSIDE

Business is Taking Off

Logan International Airport. It is today's success story and the model airport of the future. Currently employing more than 15,000 people, Logan handles 24.7 million passengers and 884 million pounds of cargo and mail annually. The 10th busiest airport in the United States and the 16th busiest in the world, it must be prepared to compete for increasing numbers of passengers — estimated at 45 million by 2010 — and cargo generated by expanding commerce with the Atlantic and Pacific Rims.

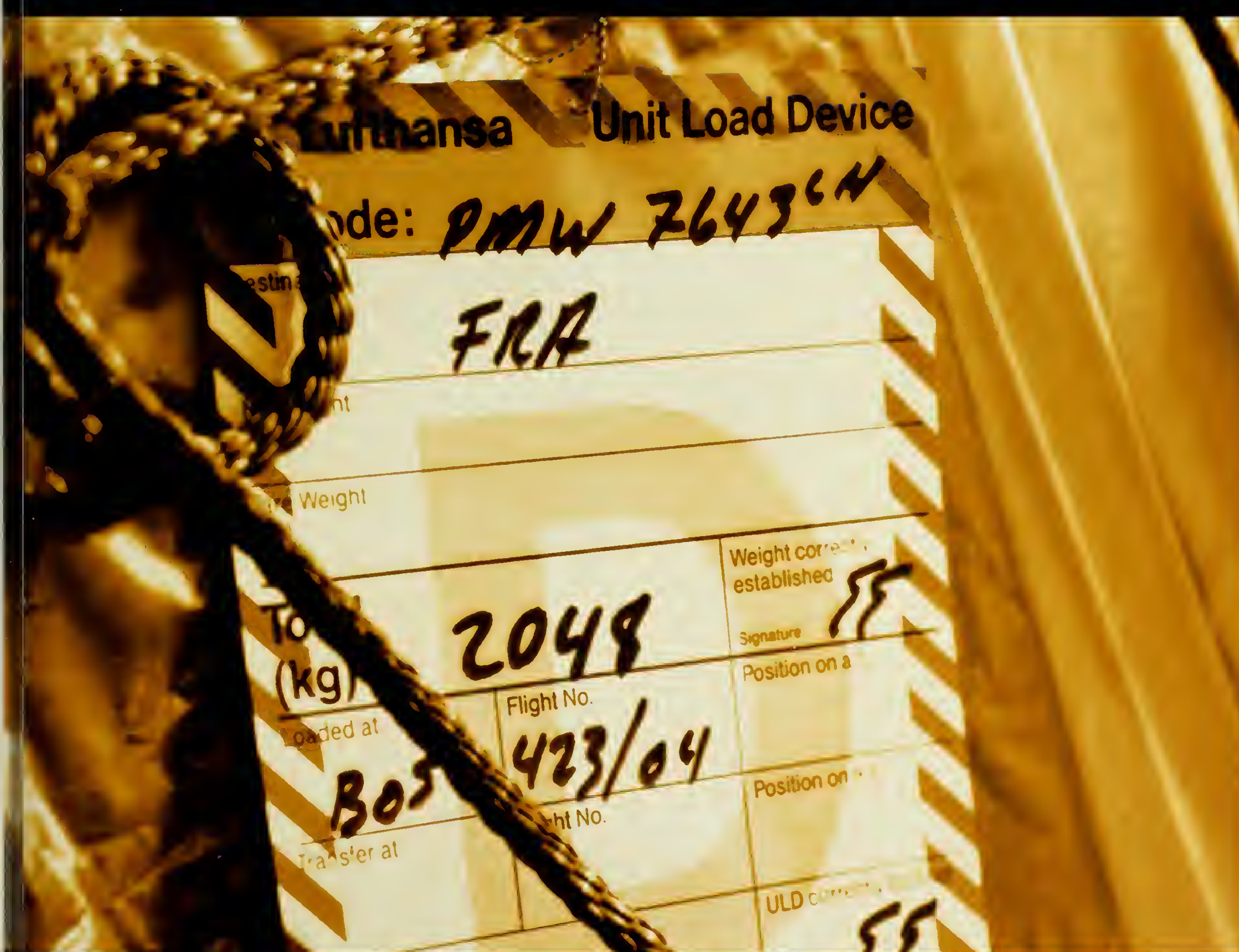
Even as Logan gears up for global opportunities, Massport is taking care of business onsite at the airport. At Terminal C, Boston-based retailers with "name" recognition as well as local East Boston businesses are being recruited to provide a distinctive selection of shopping, dining, and other services to passengers and the airport community. Plus new dining and shopping concessions recently installed at Terminal A have already provided Boston-style hospitality to thousands of busy travelers.

The Future is Now

Massport's ambitious Logan 2000 Program is critical to fulfilling the 21st Century requirements of the traveling and trading public. This seven-year, $1.2 billion cohesive package of passenger terminal, airport infrastructure, and regional transportation projects will increase airport efficiency, make better use of limited space, and respond to evolving business demands at the airport.

Massport's rigorous environmental processes have already borne positive results, mitigating noise and traffic impacts and improving overall air quality. Key environmental filings for three Phase One components of Logan 2000, which continue that forward momentum, have already been completed:

- A new U.S. Customs facility and West Concourse for Terminal E, designed to meet both the extensive physical processing and personal comfort requirements of more than 3000 international travelers per hour, Logan's fastest-growing market segment;
- A 5700-space parking garage, which assists Massport's compliance with a state-mandated 19,315-space cap on airport parking, centralizes scattered parking slots into one location easily accessible to all passenger terminals and cuts down on circuits around the airport and trips through local streets, improving air quality and minimizing "parking madness"; and
- An improved fuel distribution system to better service airlines.


Unit Load Device
FRA
Weight
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Structural and decor improvements at Terminal E, construction of a 1500 space remote parking garage in Chelsea for airport employees, the availability of a new Logan Express bus terminal in Woburn, a taxi improvement program setting high standards for both drivers and their cabs, and something as simple as free Smarte Cartes for toting luggage through Terminal E have further added to Logan's environmental sensitivity and customer service capabilities.

Safety First

Confidence in Logan International Airport's safety is essential for anyone either using or working at the facility. That's why Massport has committed $20 million to guarantee that safety at Logan is state-of-the-art, including:

> CONSTRUCTION OF A NEW CENTRAL FIRE STATION AND TRAINING FACILITY;

> DEVELOPMENT OF A SATELLITE FIRE STATION TO ENHANCE THE SPEED OF CRASH-RESPONSE RESCUE;

> COMPLETION OF A PROJECT DESIGNED TO MINIMIZE RUNWAY-END INCIDENCES;

> PURCHASE OF NEW FIREFIGHTING EQUIPMENT; AND

> INSTALLATION OF A DOCK FOR A NEW SHALLOW-DRAFT RESCUE BOAT.

The end result of this investment in safety — as demonstrated by a full-scale emergency drill — has been a reduction in emergency response time to under two minutes, one minute less than the FAA standard of three minutes. Logan has also been recognized by the International Association of Airport and Seaport Police for public safety excellence, demonstrating compliance with over 240 individual safety rules and standards.

SEASIDE

Making the Maritime Grade

The public terminals in the Port of Boston. They're a venerable old resource transformed by Massport into a vibrant contributor to today's regional economy, serving the evolving needs of both the industrial and cruise markets. With most of the region's high-value consumer goods including critical stocks of heating oil and aviation fuel arriving by water, Massport's seaport terminals employ 6,000 people and generate $1.8 billion in annual economic impact.

Steering the Modern Seaport

Customer service is the driving force behind Massport's planning for the port of the future. Building on a comprehensive marketing strategy, there's a new emphasis on addressing carrier service issues, attending to outstanding infrastructure questions, and increasing public and industry awareness of the role that a port plays in the wider transportation network. The results speak for themselves: container tonnage rose by 9.6 percent in the fiscal year 1994 to 1,098,969 tons.

Carriers serving the port — both on the cargo and cruise sides — are rediscovering that Boston is a port that really works. Major positive results include:

> Lykes Lines' successful introduction of direct inbound and outbound service to and from Europe, as well as the first direct service to Mexico since the turn of the century;

> The capable handling of one of Mediterranean Shipping Company's deepest draft vessels, attributed to Massport's fast-track dredging of the berth at Moran Terminal, led to the successful renegotiation of a multi-year service agreement;

> A record-breaking call by the VSA vessel the "Sea-Land Performance," with 455 inbound containers, stacked four-high, easily handled by two recently-raised cranes at Conley Terminal;

> Majesty Cruise Lines' blockbuster season, offering 23 direct sailings to Bermuda, augmented by several "Cruises to Nowhere;"

> Carnival Cruise Lines' sellout of three short cruises on the Fascination, the second largest cruise ship in the world; and

> Continuing talks between labor and port officials to ensure that lines calling Boston receive the best service possible at the fairest price for all parties.

Building a Better Seaport

The modern seaport's success depends on correctly forecasting long-range market changes so that infrastructure and technology investments can be timed to take advantage of emerging opportunities. Massport, in cooperation with the Commonwealth of Massachusetts, is aggressively pursuing improvements at the terminals and on connecting road and rail systems to ensure that the port can retain its competitive edge in the global marketplace.

A number of key initiatives have strengthened the port's ability to satisfy existing needs and attract new business to Massport's terminals:

> Conley Terminal's $50 million capital improvement program has extended the reach of the existing two container cranes by 20 feet each, expanded the yard storage area by 20 acres, and will add 950 feet of berth space and two new post-Panamax cranes;

> Moran Terminal's new computerized cargo system, featuring EDI's paperless transactions, has saved time for truckers waiting to pick up and deliver and facilitate information flow between the carriers and the terminal;

> The Boston Harbor Navigation and Improvement Project to deepen the major shipping channels is moving ahead on schedule, with filing of a draft Environmental Impact Report/Statement;

> Massport's major participation in Governor Weld's and Lt. Governor Cellucci's recently-formed Commission on Commonwealth Port Development, will provide a unique opportunity to clearly identify goals and develop cohesive action plans for Massachusetts' varied seaport resources;

> The reintroduction of rail to the port ensures that cargo off-loaded at Boston enjoys a 48-hour advantage from Massport's terminals to the U.S. Midwest and weekly service from ship to westbound rail;

> East Boston's Piers Park Phase 1, Massport's $17 million investment to transform the dilapidated and under-utilized waterfront piers into a lively harbor venue, including a community sailing program, expects to open in 1995; and

> World Trade Center Boston Expansion, Phase 1 of Massport's $100 million construction project which will include a hotel, garage, three office buildings and retail space, breaks ground in mid-1995.

TRADE AND TOURISM DEVELOPMENT

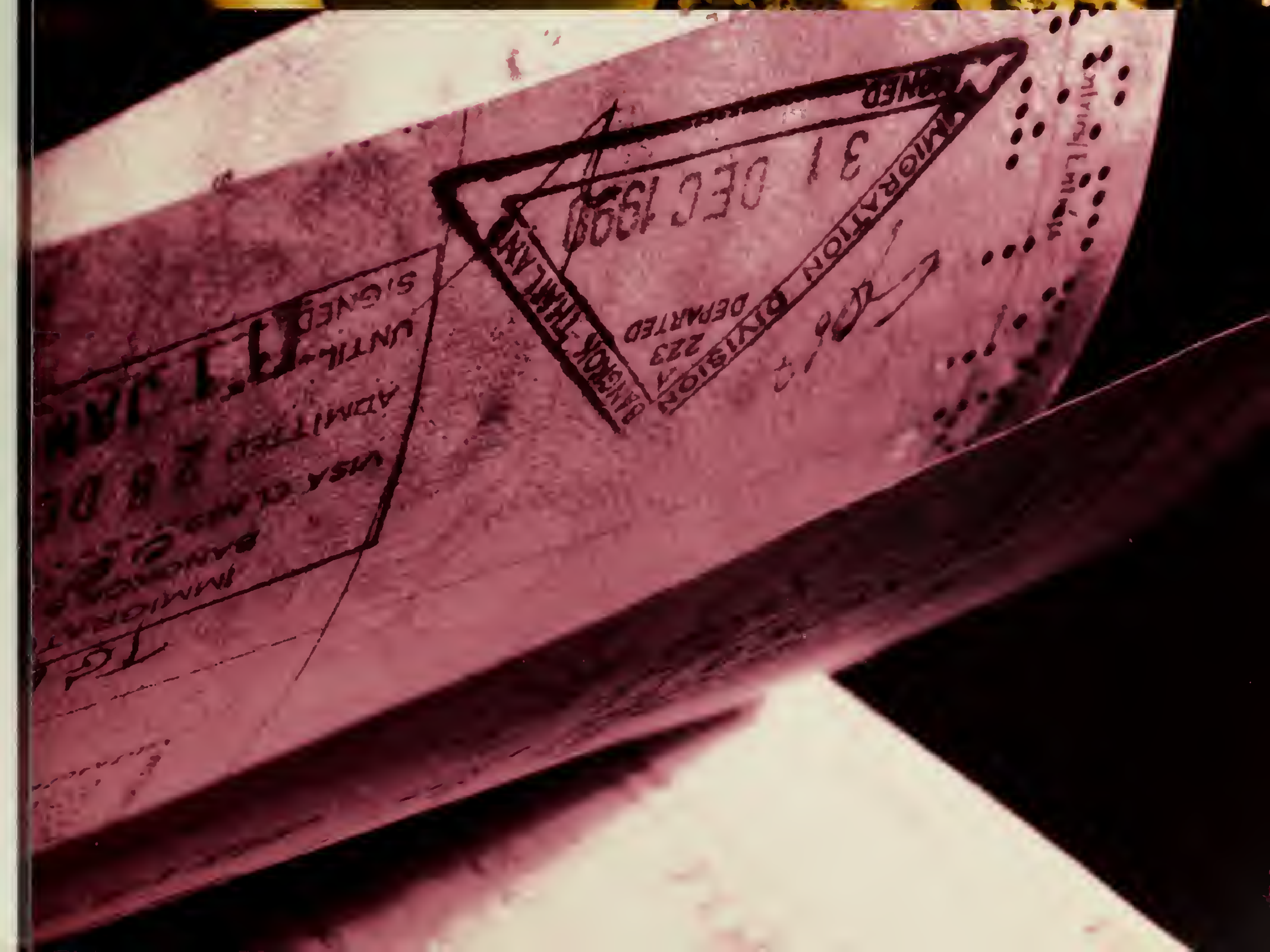
Exporting Excellence

One of the strengths of Massachusetts is its diversity of businesses and the products they produce, ranging from handmade furniture to pollution control equipment. The challenge lies in introducing these companies to foreign markets and providing each company with the specialized information and access they need to break into international trade. Massport's range of trade and tourism services, each year, assists hundreds of firms in their quest to bring the best Massachusetts business has to offer to the world.

Spanning the Globe

Massport, side-by-side with Governor William Weld and Lt. Governor Paul Cellucci, has led an impressive number of trade missions to key sales hotspots around the world. An in-house staff of trade specialists assists in coordinating functions, displays, information distribution, and follow-up for a wide array of targeted visits:

- 52 New England companies pitched their products to five million French consumers at the Printemps campaign in Paris;
- A joint promotion with German direct-mail-order firm Schrader & Co. to distribute over one million catalogues featuring local products is expected to result in $300,000 in sales;
- The International Gift Fair in Singapore, the Hsin Kuang Mitsukoshi Department Store promotion in Taipei, and New England Trade Days at embassies in Japan and Singapore brought local businesses in touch with Asian markets;
- A trade mission to Portugal and Spain, along with a Massport-led fight to continue direct air service between Boston and Portugal, opened up new lines of communication to these European markets; and
- The Mexican as well as South and Central American markets received special attention, with a Massport-led delegation in attendance at a telecommunications conference in Chile and Argentina, following up Governor William Weld's and Lt. Governor Paul Cellucci's trade missions to Argentina, Brazil, Chile, and Mexico.


IMMIGRATION DIVISION
DEPARTED

Continuing Business Education

Educating local businesses on how to conduct business abroad is just one of the tools Massport offers to aspiring international traders. By attending specialized training sessions, meeting and joining with others seeking the same goals, participating in government grant programs, and taking advantage of informational resources, local businesses can turn knowledge into power:

> Massport, in cooperation with the Massachusetts Office of International Trade and Investment, the Massachusetts Small Business Development Center, the Massachusetts Industrial Finance Agency, and the Massachusetts Office of Business Development, recently opened the Massachusetts Export Center, a one-stop resource for an array of export assistance programs and services;

> A $400,000 three-year grant from the U.S. Department of Commerce provided supplementary funding for a joint Massport/private sector program to increase exports of New England-made consumer goods;

> Massport's Evening Export classes, attended by 320 people since 1990, have been expanded to include an advanced level program; and

> As a follow-up to a Massport-led mission to Kuwait, Bahrain, and Egypt in 1992 and a trade mission to Saudi Arabia in 1994, a group of Massachusetts firms established the Middle East Business Council to explore ongoing business opportunities.

Tracking Tourism

Tourism continues to be one of the fastest growing market sectors in the Commonwealth and Massport has identified it as one of its top priorities. Attracting increasing numbers of visitors from key locations abroad and providing them with a superior experience at our passenger facilities is the ultimate goal:

> Cooperative advertising campaigns in the U.K., Germany, Italy, Amsterdam and Japan have drawn record numbers of international visitors to Massachusetts, with Logan handling over 1,822,943 arrivals this year. This is a two percent increase over the previous FY. British Airways, in response to this increased business, committed a second 747 aircraft to Boston, adding 200 seats to their daily passenger capacity;

> The Black Falcon Cruise Terminal celebrated its best cruise season ever in 1994, hosting 20,000 more passengers than during the 1993 season, and inaugurating regular weekly service between Boston and Bermuda; and

> Consolidation of Massport's trade and tourism functions into a central office at the World Trade Center Boston ensures the continued effectiveness and cohesiveness of Massport's ongoing international outreach programs.


TO
BOS
VIA
JFK
VIA
MAD

LANDSIDE

Creative Connections

Landside access. The best transportation facility in the world is useless without good transportation connections that appeal to the public's common sense as well as their wallets. Massport has long been a leader in developing unique transportation options, both to and from its facilities and onsite. Working with a variety of local, state, and federal agencies, Massport has achieved a solid reputation for keeping its facilities open for business:

> The Woburn Logan Express service celebrated its twelve-month anniversary, carrying 90,963 riders which when added to the Braintree and Framingham Logan Express numbers totaled a record-breaking 607,600 passengers—up 30 percent over the previous FY;

> Maintenance work on the Tobin Bridge was carefully coordinated with other major roadway projects and the expiration date on frequent commuter stickers was extended for six months to make the drive easier for thousands of Boston-bound workers;

> Massport continued to work cooperatively with the Massachusetts Highway Department to ensure that the Third Harbor Tunnel Project will provide enhanced access to both the airport and seaport terminals; and

> Massport and the Commonwealth jointly announced plans to develop a public/private natural gas refueling station at Logan International Airport, ushering in a new and cleaner way for on-airport vehicles to reach their destinations.

ECONOMIC & COMMUNITY DEVELOPMENT

Community Investment

Massport is committed to providing positive impacts for its "impacted" communities, directly funding jobs, assisting with neighborhood events and initiatives, and maintaining open lines of communication with local leaders. Whether it's East Boston, South Boston, or downtown Boston, Massport is determined to be an involved and interested neighbor 24-hours a day.

Direct Benefits

Jobs are the cornerstone of a healthy economy and Massport's record in providing employment is one of the best. Whether at its properties directly, or through special programs, we generate paychecks for thousands of Massachusetts residents:

- In 1993, Massport's Summer Jobs Program placed 362 local youths at 34 agencies. The program's $810,000 was the largest funding source for summer jobs in the Boston area. In 1994, Massport ranked as the single largest provider of summer jobs for the second straight year, budgeting $1.4 million to fill 617 positions;
- Under the auspices of Massport's Concerned Minority Employee (CME) program, a $100,000 four-year commitment to inner-city students, 12 local minority youths were placed in summer jobs; and
- Reaching out to the wider minority community, Massport solicited and received a $275,000 grant from the Community Development Finance Corporation to assist local women and minority contractors to bid on large construction projects, such as those associated with Logan 2000.

Helping Hands

When a local community needs help in getting an event or initiative underway, Massport is often the first to step in and offer financial assistance. This fiscal year, educational, social, civic, and athletic groups in East Boston, Winthrop, Revere, Chelsea, South Boston, and Charlestown received over $350,000 in support of various activities. On an individual basis, the dollar amounts and projects may be small in scale, but they're large in meaning:

- Massport hosted a CPR course for 25 East Boston Pop Warner coaches, assistant coaches;
- Massport resurfaced the playground at Dalrymple School in Winthrop;
- Massport snowplowed roads in Chelsea adjacent to the Tobin Bridge;
- Massport coordinated a gift drive for the Crossroads Family Shelter in East Boston, and worked with East Boston Neighbors Against Substance Abuse on drug-prevention programs;
- Massport sponsored a team in the South Boston Youth Soccer League which services 1100 South Boston children between the ages 4 to 17 years old.

BOARD MEMBERS

The Massport Board consists of seven members appointed by the governor of Massachusetts to staggered terms of seven years each. Members serve without compensation.

> RICHARD A. GIESSER, CHAIRMAN, IS A MANAGEMENT CONSULTANT.
> TERM EXPIRES 1995.

> PAUL W. CRONIN, VICE CHAIRMAN, IS CHAIRMAN OF PWC & ASSOCIATES, AN INTERNATIONAL CONSULTING FIRM SPECIALIZING IN DEVELOPMENT.
> TERM EXPIRES 1998.

> CAROLYN P. PARTAN IS A REAL ESTATE ATTORNEY AT THE BOSTON LAW FIRM OF HALE AND DORR.
> TERM EXPIRES 1996.

> FREDERICK P. SALVUCCI IS A PRINCIPAL RESEARCH ASSOCIATE AT MIT'S CENTER FOR TRANSPORTATION STUDIES.
> TERM EXPIRES 1997.

> JAMES H. CARANGELO IS PRESIDENT OF BUSINESS PLANNING ASSOCIATES, AN EMPLOYEE BENEFIT SALES AND CONSULTING FIRM.
> TERM EXPIRES 1999.

> GEORGE W. CASHMAN IS PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE INTERNATIONAL BROTHERHOOD OF TEAMSTERS, LOCAL #25 IN CHARLESTOWN.
> TERM EXPIRES 2000.

> KATHLEENE B. CARD IS A CONSULTANT IN THE BOSTON AREA.
> TERM EXPIRES 2001.

Report of Independent Accountants

To the Members of the Massachusetts Port Authority:

We have audited the accompanying balance sheet of the Massachusetts Port Authority (a public instrumentality of the Commonwealth of Massachusetts) as of June 30, 1994 and the related statements of income, changes in fund equity and cash flows for the year then ended. These financial statements are the responsibility of the Massachusetts Port Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Massachusetts Port Authority as of June 30, 1993, were audited by other auditors whose report dated September 30, 1993, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1994 financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Port Authority as of June 30, 1994, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Boston, Massachusetts
September 12, 1994

BALANCE SHEETS

June 30, 1994 and 1993

ASSETS	1994			1993
(dollars in thousands)	Port Authority Operations	PFC Program	Combined	Combined
Cash and cash equivalents (Notes A and C)	$ 30,759	$ —	$ 30,759	$ 8,609
Investments (Notes A and C)	27,554	—	27,554	23,407
Accounts receivable, net of allowance for doubtful accounts of $10,769 and $10,900 in 1994 and 1993, respectively	20,618	—	20,618	25,520
Accounts receivable - grants (Note A)	4,345	—	4,345	9,911
Prepayments and other assets, net	15,971	—	15,971	9,258
Assets whose use is limited, including cash and cash equivalents of $35,025 and $27,001 in 1994 and 1993, respectively (Notes A, C, and H)	287,441	12,525	299,966	334,360
Investment in facilities (Notes A and D):				
Facilities completed	1,230,293	—	1,230,293	1,134,054
Less accumulated depreciation	(534,141)	—	(534,141)	(492,300)
	696,152	—	696,152	641,754
Construction in progress	120,513	2,772	123,285	112,394
Net investment in facilities	816,665	2,772	819,437	754,148
Total Assets	$1,203,353	$15,297	$1,218,650	$1,165,213

LIABILITIES AND FUND EQUITY

LIABILITIES				
Accounts payable and accrued expenses (Note H)	$ 53,520	$ 240	$ 53,760	$ 32,890
Accrued compensated absences (Note A)	8,486	—	8,486	7,457
Accrued pension cost (Note G)	2,350	—	2,350	2,857
Accrued interest payable	18,345	—	18,345	18,150
Funded debt (Note F)	543,025	—	543,025	550,123
Deferred income	5,757	—	5,757	2,662
Total Liabilities	631,483	240	631,723	614,139
Contingent liabilities and commitments (Notes I, K & L)				
FUND EQUITY (NOTES A AND B)				
Accumulated fund equity	464,270	15,057	479,327	449,192
Contributed capital, grants-in-aid of construction	107,600	—	107,600	101,882
Total Fund Equity	571,870	15,057	586,927	551,074
Total Liabilities and Fund Equity	$1,203,353	$15,297	$1,218,650	$1,165,213

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

STATEMENTS OF INCOME

For the years ended June 30, 1994 and 1993

(dollars in thousands)	1994 Port Authority Operations	1994 PFC Program	1994 Combined	1993 Combined
Operating Revenues (Note B):				
Tolls, fees and sales of services	$129,605	$ —	$129,605	$117,429
Rentals (Note L)	58,438	—	58,438	55,431
Concessions (Note L)	28,763	—	28,763	28,851
Other (Note I)	6,597	—	6,597	17,672
Total Operating Revenues	223,403	—	223,403	219,383
Operating Expenses (Note B):				
Operations and maintenance	99,991	—	99,991	86,402
Administration	39,335	—	39,335	38,264
Insurance (Note A)	2,675	—	2,675	3,748
Pension costs (Note G)	2,415	—	2,415	2,863
Payments in lieu of taxes (Note J)	6,237	—	6,237	6,227
Provision for uncollectible accounts	(523)	—	(523)	1,245
Other (Note I)	—	—	—	10,000
Total Operating Expenses	150,130	—	150,130	148,749
Depreciation and amortization, including $5,525 and $5,281 in 1994 and 1993, respectively, on assets acquired with contributed capital, grants-in-aid of construction (Note A)	42,908	—	42,908	39,261
Income from Operations	30,365	—	30,365	31,373
PFC Revenue (Note E)	—	14,937	14,937	—
Financial income and expense:				
Income on investments (Note A)	10,441	120	10,561	11,487
Interest expense (Note A and I)	(31,253)	—	(31,253)	(26,490)
Income before extraordinary item	9,553	15,057	24,610	16,370
Extraordinary Item:				
Loss from defeasance of debt (Note F)	—	—	—	(12,424)
Net Income	$ 9,553	$15,057	$ 24,610	$ 3,946

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN FUND EQUITY

For the years ended June 30, 1994 and 1993

(dollars in thousands)	Accumulated Fund Equity	PFC Program	Contributed Capital, Grants-in-Aid of Construction	Total Fund Equity
BALANCE, JUNE 30, 1992	**$439,965**	**$ —**	**$ 90,182**	**$530,147**
Net income	3,946	—	—	3,946
Contributed capital, grants-in-aid of construction (Note A)	—	—	16,981	16,981
Transfer of depreciation to contributed capital	5,281	—	(5,281)	---
BALANCE, JUNE 30, 1993	**449,192**	—	**101,882**	**551,074**
Net income	9,553	15,057	—	24,610
Contributed capital, grants-in-aid of construction (Note A)	—	—	11,243	11,243
Transfer of depreciation to contributed capital	5,525	—	(5,525)	—
BALANCE, JUNE 30, 1994	**$464,270**	**$15,057**	**$107,600**	**$586,927**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 1994 and 1993

(dollars in thousands)	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 232,447	$ 199,512
Cash payments:		
To vendors for goods and services	(83,469)	(80,048)
To employees for services	(56,519)	(51,175)
Payments in lieu of taxes	(6,237)	(6,227)
Net cash provided by operating activities	86,222	62,062
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Grants-in-aid of construction	16,809	23,153
Acquisition and construction of capital assets	(101,345)	(99,704)
Proceeds from sale of bonds	—	199,250
Principal paid on refunded debt	—	(90,045)
Principal paid on funded debt	(8,310)	(7,800)
Interest paid on funded debt	(36,504)	(35,609)
Proceeds from interest rate swap termination	—	2,149
Proceeds from passenger facility charges	14,937	—
Net cash used for capital and related financing activities	(114,413)	(8,606)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,724,680)	(1,271,303)
Proceeds from sale and maturities of investments	1,768,258	1,215,757
Interest on investments	14,787	13,774
Net cash provided by (used for) investing activities	58,365	(41,772)
NET INCREASE IN CASH AND CASH EQUIVALENTS	30,174	11,684
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	35,610	23,926
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 65,784	$ 35,610

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

STATEMENTS OF CASH FLOWS, *Continued*

For the years ended June 30, 1994 and 1993

(dollars in thousands)	1994	1993
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	$ 24,610	$ 3,946
Less: income on investments	(10,561)	(11,487)
proceeds from passenger facility charge	(14,937)	—
Add: interest expense	31,253	26,490
extraordinary loss from defeasance of debt	—	12,424
	$ 30,365	$ 31,373
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and amortization	42,908	39,261
Provision for uncollectible accounts	(523)	1,245
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	5,425	(8,555)
Increase in prepaid expenses and other	(6,967)	(2,486)
Increase in accounts payable and accrued expenses	11,396	1,902
Increase in accrued compensated absences	1,030	849
Decrease in accrued pension cost	(507)	(479)
Increase (decrease) in deferred income	3,095	(1,048)
Total adjustments	55,857	30,689
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 86,222	$ 62,062

The accompanying notes are an integral part of these financial statements.

The Massachusetts Port Authority (the Authority) is a public instrumentality created by an act of the Legislature (the Enabling Act) of the Commonwealth of Massachusetts (the Commonwealth), effective June 21, 1956. The Authority controls, operates and manages Boston-Logan International Airport (Logan Airport), Hanscom Field, Maurice J. Tobin Memorial Bridge (Tobin Bridge) and other facilities in the Port of Boston. The Authority has no stockholders or equity holders. The provisions of the Enabling Act and the 1978 Trust Agreement (the Trust Agreement) with the Authority's bondholders govern the disposition of cash revenues to the various funds established under the Trust Agreement and restrict the use of such revenues credited to the various funds. *Continued*

A. Summary of Significant Accounting Policies:

These financial statements have been prepared in conformity with generally accepted governmental accounting principles.

(1) Assets Whose Use Is Limited
The balance sheet caption, "assets whose use is limited," represents restricted or trusteed assets under the Trust Agreement that are earmarked to fund certain activities of the Authority such as construction of new facilities and debt service. Assets to fund deferred compensation are included under this caption (See Note D).

(2) Statements of Cash Flows
For purposes of the statements of cash flows, the Authority considers all highly liquid investments (including assets whose use is limited) with a maturity of 30 days or less when purchased to be cash equivalents.

(3) Investments
Investments in U.S. Government securities are recorded at amortized cost, which approximates market value including accrued interest. Investments in repurchase agreements are recorded at cost including accrued interest.

(4) Self-Insurance
The Authority, as mandated by the Trust Agreement, maintains a self-insurance account within the operating fund. The Authority is self-insured for certain major catastrophe-type risks and workmen's compensation claims (effective January 1, 1993), but maintains insurance coverage for claims in excess of established limits. Investments used to fund self-insurance claims are included within "assets whose use is limited" in the accompanying balance sheets. (See Notes C and K).

(5) Investment in Facilities
Facilities are carried at cost and include the expenditure of federal grants-in-aid of construction and the cost of significant renewals and betterments. Federal grants-in-aid of construction are recorded as contributed capital as earned and amortized on the straight-line method over the service lives of the related assets. Expenditures for repairs and maintenance are charged to expense as incurred.

(6) Depreciation
Depreciation is provided on the straight-line method based on estimated useful service lives of the related assets beginning in the fiscal year of acquisition or during completion of construction. Depreciation is computed on facilities which are recorded in the accounts of the Authority, including those financed by grants-in-aid of construction.

(7) Interest Capitalization
The Authority capitalizes certain interest associated with the cost of restricted tax-exempt borrowings, less any interest earned on temporary investment of the proceeds of those borrowings during the period of construction. Interest expense of $5,447,000 and $9,694,000, reduced by interest income of $2,921,000 and $2,908,000 for the years ended June 30, 1994 and 1993, respectively, has been capitalized as a part of the cost of construction projects.

(8) Accounting for Compensated Absences
The Authority accrues for vacation and sick pay when it is earned. The liability for vested vacation and sick pay is reflected in the accompanying balance sheets under the caption "accrued compensated absences."

(9) Deferred Income
Deferred income includes amounts received from the Commonwealth for the temporary takings of certain properties at Logan Airport for fiscal years 1995 and 1996.

(10) Passenger Facility Charges
Revenues derived from the collection of passenger facility charges are recognized and reported as non-operating revenue in the year the fees are collected by the Authority.

(11) Financial Statement Reclassification
Certain accounts in the June 30, 1993 financial statements have been reclassified to conform with the June 30, 1994 presentation.

B. Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the Trust Agreement:

The provisions of the Enabling Act and the Trust Agreement with the Authority's bondholders prescribe certain accounting practices to be followed in maintaining the accounts and records of the Authority.

Under the Trust Agreement, monthly cash revenues of the Authority, after providing for required debt service costs on the Revenue Refunding Bonds, Series 1978, from pledged revenues, are transferred to the Operating Fund. After providing for operating expenses, including pension expense and transfers to the self-insurance account, cash revenues are then transferred to the Interest and Sinking Fund (which are applied to debt service on any outstanding bonds other than the Revenue Refunding Bonds, Series 1978), the Maintenance Reserve Fund, the Payment In Lieu of Taxes Fund and the Improvement and Extension Fund. Cash and investments held in the Improvement and Extension Fund, to the extent designated by the Authority, are transferred to the Capital Budget Account.

Under the provisions of the Trust Agreement, all revenues derived from operation of the Tobin Bridge, all aircraft landing fees and motor vehicle parking fees derived from the operations of the airport properties and all income from investments held in all funds with the exception of the Construction Funds, Port Properties Fund and self-insurance account are pledged for the debt service requirements of the Revenue Refunding Bonds, Series 1978.

To the extent that pledged revenues exceed debt service requirements, they are available to meet operating expenses and for transfer to other funds. To the extent unexpended, these amounts continue to be available for the debt service requirements in any year.

B. Revenues and Operating Expenses as Determined by Accounting Practices prescribed by the Trust Agreement, continued:

Presented below are the 1994 and summary 1993 revenue and operating expenses as determined in accordance with the Trust Agreement and a reconciliation to net income as presented in the accompanying Statements of Income under generally accepted governmental accounting principles (GAGAP). (For Trust accounting purposes, the provision for uncollectible accounts is netted within the revenues caption.)

(dollars in thousands)	Bridge	Airport Properties	Port Properties Maritime	Port Properties Develop-ment*	Income on Invest-ments	1994 Total	1993 Total
Revenues, Net:							
1978 Pledged Revenues	$ 5,379	$ 87,792	$ —	$ —	$ 9,983	$103,154	$ 96,262
Other	—	99,366	25,271	6,115	—	130,752	120,158
Passenger Facility Charge (Note E)	—	14,937	—	—	120	15,057	—
	5,379	202,095	25,271	6,115	10,103	248,963	216,420
Operating Expenses:							
Operations and Maintenance	3,593	71,487	19,596	2,315	—	96,991	86,402
Administration	2,282	29,720	5,493	1,840	—	39,335	38,264
Insurance	359	1,949	621	225	—	3,154	4,398
Pension (Note G)	190	2,273	339	120	—	2,922	3,342
	6,424	105,429	26,049	4,500	—	142,402	132,406
Excess (Deficit) of Revenues Over Operating Expenses Under Trust Agreement	(1,045)	96,666	(778)	1,615	10,103	106,561	84,014
Add: Self Insurance Cost (1)	48	442	(23)	12	—	479	650
Pension Adjustment (1)	27	389	72	19	—	507	479
Difference on Sale of Equipment (2)	—	—	3	—	—	3	139
Self Insurance Income on Investments (3)	—	—	—	—	458	458	767
Interest Rate Swap Termination Fees (3)	—	—	—	—	—	—	2,149
Other (3)	—	—	—	—	—	—	10,150
Less: Payments In Lieu of Taxes (4)	(316)	(4,832)	(819)	(270)	—	(6,237)	(6,227)
Loss from Defeasance of Debt	—	—	—	—	—	—	(12,424)
Other (4)	—	(3,000)	—	—	—	(3,000)	(10,000)
Interest Expense (4)	(3,719)	(20,378)	(6,017)	(1,139)	—	(31,253)	(26,490)
Depreciation and Amortization (4)	(3,144)	(30,212)	(6,255)	(3,297)	—	(42,908)	(39,261)
Net Income (Loss)	$(8,149)	$ 39,075	$(13,817)	$(3,060)	$10,561	$ 24,610	$ 3,946

* Development includes activities related to the Authority's alternative use program, principally for Commonwealth Pier, Fish Pier and Hoosac Pier.

(1) Expensed under Trust Agreement, not an expense under GAGAP.
(2) Equipment is depreciated under GAGAP but not under Trust Agreement.
(3) Not revenue under Trust Agreement, revenue under GAGAP.
(4) Not an operating expense under Trust Agreement, expensed under GAGAP.

C. Cash, Cash Equivalents and Investments:

The following summarizes the Authority's cash, cash equivalents and investments at June 30, 1994 by the various funds and accounts established under the Trust Agreement with the Authority's bondholders. Summary 1993 information is also presented. (Assets designated for credit enhancement and deferred compensation are also included.)

(dollars in thousands) Use defined for specific purposes:	Cash and Cash Equivalents	Investments	Assets whose use is limited Cash, Cash Equivalents & Investments	1994 Total	1993 Total
1978 Debt Service Fund	$ —	$ —	$ 39,932	$ 39,932	$ 32,698
Operating Fund	16,051	—	—	16,051	5,265
Self-insurance Account	—	—	17,479	17,479	17,067
Maintenance Reserve	—	—	57,566	57,566	69,382
Payments In Lieu of Taxes	—	—	3,351	3,351	3,694
Capital Budget	—	—	35,392	35,392	58,360
Improvement and Extension Fund	14,708	27,554	29	42,291	27,810
1985 Interest and Sinking Fund	—	—	9,829	9,829	11,003
1988 Interest and Sinking Fund	—	—	12,084	12,084	13,007
1990 Interest and Sinking Fund	—	—	11,592	11,592	11,876
1990 Construction Fund	—	—	—	—	11,727
1992 Interest and Sinking Fund	—	—	8,496	8,496	7,676
1992 Construction Fund	—	—	59,498	59,498	73,160
1993 Interest and Sinking Fund	—	—	4,122	4,122	2,207
1993 Project Fund	—	—	311	311	302
Credit Enhancement Account (Note I)	—	—	9,943	9,943	9,925
PFC Accounts	—	—	12,525	12,525	—
Subtotal	30,759	27,554	282,149	340,462	355,159
Deferred Compensation (Note H)	—	—	17,817	17,817	11,217
Total	$30,759	$27,554	$299,966	$358,279	$366,376

The carrying amount of the Authority's cash deposits was $1,934,000 and $1,526,000 at June 30, 1994 and 1993, respectively. The bank balance was $6,614,900 and $2,081,000 at June 30, 1994 and 1993, respectively. The nature of the reconciling items between the book and bank balance consisted primarily of outstanding checks which had not cleared the bank at year-end. The bank balance was fully collateralized as of June 30, 1994 and 1993.

C. Cash, Cash Equivalents and Investments, continued:

The following summarizes the Authority's cash and investments by type held at June 30, 1994. Summary 1993 information is also presented.

(dollars in thousands)	Carrying Amount	Market Value
Certificates of Deposit	$ 101	$ 101
Repurchase Agreements	98,045	98,045
U.S. Government Securities:		
Treasury Notes	106,076	105,663
Treasury Bills	7,437	7,285
Federal Farm Credit (FFC)	40,381	40,323
Federal National Mortgage Association (FNMA)	33,140	33,047
Federal Home Loan Bank (FHLB)	28,940	29,101
Federal Home Loan Mortgage Corp. (FHLMC)	23,114	23,141
Total U.S. Government & Agency Securities	239,088	238,560
Fidelity U.S. Treasury Income Portfolio Mutual Fund	1,295	1,295
Total investments	338,529	338,001
Cash in bank	1,934	1,934
Total at June 30, 1994	$340,463	$339,935
Total at June 30, 1993	$355,159	$356,576

The Authority is authorized by the Trust Agreement to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, in bonds or notes of public agencies or municipalities, in bank time deposits and in repurchase agreements. All investments are held on behalf of the Authority by the Authority's trustee and custodian.

The Certificates of Deposit are fully insured by the Federal Deposit Insurance Corporation. Repurchase agreements are collaterized by obligations of the U.S. Government or agencies of the U.S. Government. The Trust Agreement requires that securities underlying repurchase agreements must have a market value at least equal to the cost of the agreement plus accrued interest. The Fidelity U.S. Treasury Income Portfolio Mutual Fund is not guaranteed by the U.S. Government.

D. Investment in Facilities and Depreciation:

Net investment in facilities at June 30, 1994 and 1993 is comprised of:

(dollars in thousands)	1994	1993
Facilities completed by operation:		
Airport	$ 847,336	$ 778,221
Bridge	104,750	86,611
Port	278,207	269,222
Investment in facilities	$1,230,293	$1,134,054
Facilities completed by type:		
Land and land improvements	$ 109,448	$ 113,247
Bridge and bridge improvements	100,239	83,947
Buildings	676,765	617,386
Runways and other paving	277,603	257,660
Machinery and equipment	66,238	61,814
	1,230,293	1,134,054
Accumulated depreciation and amortization	(534,141)	(492,300)
	696,152	641,754
Construction in progress	123,285	112,394
Net investment in facilities	$ 819,437	$ 754,148

Estimated useful lives used in the calculation of depreciation are as follows:

Bridge	100 years
Bridge improvements	10 and 25 years
Airport facilities - buildings, runways and other paving	10 and 25 years
Port facilities - buildings and piers	25 years
Machinery and equipment	10 years

E. Passenger Facility Charges:

In August of 1993, the Authority received approval from the Federal Aviation Administration (FAA) to impose and use a $3.00 passenger facility charge (PFC) at Logan Airport, effective November 1, 1993. PFC's collected by the Authority are an amount in lieu of Federal grants and can be used for capital projects determined by the FAA to be eligible in accordance with the Aviation Safety and Capacity Expansion Act of 1990. The Authority may collect net PFC's up to $598,800,000 for the period of November 1, 1993 through October 1, 2011. The FAA has approved PFC funding for eleven proposed projects that will comprise a significant portion of the Logan capital program. The Authority may leverage the PFC proceeds through bond offerings to the extent necessary to construct eligible projects.

The amount of PFC revenue invested in Port Authority facilities, operations and reserves that is restricted for future PFC project payments is as follow:

(dollars in thousands)	June 30, 1994
Net assets, PFCs	$15,297
PFC funds expended on approved projects	(2,772)
PFCs restricted but not yet expended	$12,525

F. Funded Debt:

The following is a summary of the Authority's funded debt activity for the years ended June 30, 1994 and 1993:

(dollars in thousands)	1994	1993
Funded debt, beginning of year	$560,745	$459,340
New debt issued	—	199,250
Debt refinanced	—	(90,045)
Principal paid on funded debt	(8,310)	(7,800)
Funded debt, end of year	$552,435	$560,745

Funded debt at June 30, 1994 and 1993 is comprised of the following:

(dollars in thousands)	Weighted Average Interest Rate at June 30, 1994	1994	1993
Revenue Refunding Bonds			
Series 1978	6.8%	$ 22,895	$ 27,735
Series 1985 - A & B	8.6%	2,295	3,320
Series 1993 - A & B	5.0%	56,780	56,780
Revenue Bonds			
Series 1988-A	7.1%	2,990	4,350
Series 1990-A	7.1%	20,695	21,780
Series 1992 - A & B	5.2%	24,955	24,955
Term Bonds	6.9%	421,825	421,825
Total Funded Debt		552,435	560,745
Less: Original Issue Discount		(9,410)	(10,622)
Total		$543,025	$550,123

Scheduled principal payments on funded debt are as follows:

Fiscal Year	Amount
(dollars in thousands)	
1995	$ 11,315
1996	12,005
1997	12,780
1998	13,545
1999	14,395
Thereafter	488,395
Total	$552,435

F. Funded Debt, continued:

On March 15, 1993, the Authority issued $107.5 million in Revenue Refunding Bonds with interest rates of 2.75% to 5.625% to advance refund $90 million of outstanding 1985 and 1988 bonds with an average interest rate of 7.9%. The net proceeds of $100.5 million, after discounts of $5.7 million and $1.3 million of underwriting fees and other issuance costs, were used to purchase U.S. Government Securities. Those securities were placed in an irrevocable trust with an escrow agent to provide for the future debt service payments of the refunded portion of the 1985 and 1988 bonds. As a result, approximately 67.6% of the 1985 bonds and 43.7% of the 1988 bonds are considered to be defeased and the liability for those bonds has been removed from the Authority's funded debt.

Although the advance refunding resulted in the recognition of an accounting loss of $12.4 million for the year ended June 30, 1993, the Authority will reduce its aggregate debt service payments by approximately $29 million over the next 26 years and achieve an economic gain (the difference between the present values of the old and new debt service payments) of $15.3 million.

Additionally, in prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with the Trustee for such bonds to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 1994, the following bonds outstanding are considered defeased:

	(dollars in thousands)
1964 Series	$ 29,910
1969 Series	46,195
1971 Series	59,840
1973 Series	83,335
1982 Series	51,700
1985 Series	47,450
1988 Series	42,595
Total Defeased Bonds	$361,025

G. Pension Costs:

In July 1978, the Massachusetts legislature passed legislation which was enacted as Chapter 487 of the "Massachusetts Acts of 1978" and signed into law on July 18, 1978. This enactment provided for the establishment of the "Massachusetts Port Authority Employees' Retirement System" (the Plan), a contributory retirement system that is separate from the Massachusetts State Employees' Retirement System. Prior to this enactment, Authority employees were members of the state employees' system, and the funding of the pension liability was on a "pay as you go" method. Pursuant to this enactment, the employees' rights and benefits under the state plan were transferred to the new system, and the Authority established a separate pension fund. The Plan was established to provide retirement benefits for substantially all employees of the Authority and incidental benefits for their surviving spouses, beneficiaries and contingent annuitants. The Authority funds pension costs based on the actuarially determined annual pension expense which includes current service cost and the amortization, over a 20-year period, of unfunded prior service costs. This annual pension contribution, as actuarially determined, includes a factor for the reimbursement to the Commonwealth for amounts expended by the Commonwealth on account of the Authority's employees retired prior to January 1, 1979.

The Authority's covered payroll for members of the Plan as of the most recent actuarial valuation dates was approximately $38,476,000 as of January 1, 1994. Total payroll for Authority employees was $48,743,000 for the 12 months ended June 30, 1994.

The actuarial cost method utilized to determine contributions to the Plan for the years ended December 31, 1993 and 1992 is the entry age normal-frozen initial liability cost method.

G. Pension Costs, continued:

The more significant actuarial assumptions underlying the actuarial computations for the years ended December 31, 1993 and 1992 are as follows:

Assumed rate of return on investments	8.0% per annum compounded annually
Nondisabled life mortality basis	1983 Group Annuity Table for males for 1993; the 1971 Group Annuity Mortality Table for males and the same table with ages set back six years for females for 1992
Employee turnover basis	Based on an actuarial table developed from statewide experience for 1993; and actuarial table T-5 from the Pension Actuaries Handbook for 1992
Salary escalation	6.0% per annum
Retirement	Age 62 or age as of the valuation date if later for Group 1 and 2 employees in 1992 and 1993 Age 56 for Group 4 employees in 1993 and age 62 or age as of the valuation date if later in 1992
Retirement benefits	2.2% per year of service for Group 1 and 2, 2.5% per year of service for Group 4
Postretirement cost of living increases	4.5% per annum compounded annually on the first $9,000 of pension benefits

The amount shown below as "pension benefit obligation" (PBO) is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other Public Employee's Retirement Systems Plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan.

G. Pension Costs, continued:

At January 1, 1994, the assets in excess of the PBO were $39,483,000, determined as follows:

(dollars in thousands)	
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	$ 32,503
Current employees:	
Employee financed	$ 25,166
Employer financed-vested	4,842
Employer financed-nonvested	27,802
Total pension benefit obligation	90,313
Net assets available for benefits	129,796
Assets in excess of pension benefit obligation	$ 39,483

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due and fund operating costs of the Plan. The Plan also amortizes the unfunded liability in level amounts over a period of 20 years.

Total contributions to the Plan were $6,154,000 for the Plan year ended December 31, 1993. This includes employee contributions of $3,022,000 which are based upon a percentage of employee base pay (5% for employees hired before December 31, 1974, 7% for employees hired between January 1, 1975 and December 31, 1983 and 8% for employees hired after December 31, 1983 and, effective January 1, 1988, an additional 2% of base pay over $30,000 for those employees hired after December 31, 1978) and employer contributions of $3,132,000 which were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed for the Plan's fiscal year beginning January 1, 1993. Employer contributions consisted of (a) $240,000 normal cost, (b) $2,562,000 amortization of the unfunded actuarial accrued liability and (c) $330,000 funding for operating costs.

G. Pension Costs, continued:

The contributions made by the employees and employer of covered payroll during the last three years are as follows:

Plan Year	Employees	Employer
1991	7%	8%
1992	7%	8%
1993	7.9%	8.1%

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed above.

Set forth below is a table listing seven-year historical trend information of the Plan. (Trend information related to plan years 1983 through 1986 is unavailable.)

Plan Year	(1) Net Assets Available for Benefits	(2) PBO	(3) Percentage Funded (1) / (2)	(4) Assets in Excess of PBO (1) - (2)	(5) Annual Covered Payroll	(6) Assets in Excess of PBO as a Percentage of Annual Covered Payroll (4) / (5)
(dollars in thousands)						
1987	$ 47,700	$43,661	109%	$ 4,038	$21,268	19%
1988	54,212	50,274	108%	3,938	25,975	15%
1989	63,151	58,914	107%	4,237	25,998	16%
1990	76,687	63,937	120%	12,750	29,397	43%
1991	83,228	72,779	114%	10,449	31,575	33%
1992	114,206	83,800	136%	30,406	40,380	75%
1993	129,796	90,313	144%	39,483	38,476	103%

Analysis of the dollar amounts of net assets available for benefits, PBO and assets in excess of the PBO, in isolation, can be misleading. Expressing the net assets available for benefits as a percentage of the PBO provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Public Employee Retirement System (PERS). Trends in assets in excess of PBO and annual covered payroll are both affected by inflation. Expressing the assets in excess of PBO as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due.

G. Pension Costs, continued:

For the financial statements prepared in accordance with generally accepted governmental accounting principles, pension expense includes current service cost and amortization of past service costs which were determined as of July 1, 1973, over a 25-year period, commencing in 1974. Total pension expense so determined was $2,415,000 and $2,863,000 for the years ended June 30, 1994 and 1993, respectively.

In addition to providing pension benefits, the Authority provides certain health care benefits for approximately 246 retired employees through insurance company contracts. The Authority recognizes the cost of providing those benefits by expensing the insurance premiums when paid. This expense was $1,036,000 and $962,000 for the years ended June 30, 1994 and 1993, respectively.

H. Deferred Compensation:

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Authority (without being restricted to the provisions of benefits under the plan), subject only to the claims of the Authority's general creditors. Participants' rights under the plan are equal to those of general creditors of the Authority in an amount equal to the fair market value of the deferred account for each participant. It is the opinion of the Authority's legal counsel that the Authority has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Authority believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

The market value of the deferred compensation plan assets and the total amount of deferred compensation, including income earned, were approximately $17,817,000 and $11,217,000 at June 30, 1994 and 1993, respectively. These amounts are included in the accompanying balance sheets under the captions "assets whose use is limited" and "accounts payable and accrued expenses."

I. CONTINGENT LIABILITIES AND COMMITMENTS:

CONTRACTUAL OBLIGATIONS FOR CONSTRUCTION:
Contractual obligations for construction were approximately $157,492,000 at June 30, 1994.

FORWARD INTEREST RATE SWAP:
In fiscal 1993, the Authority entered into a forward interest rate swap arrangement in the initial notional amount of $71,715,000 which will take effect on July 1, 1995 for the seven-year period ending June 30, 2002 with a portion continuing through December 31, 2002. Under this arrangement, the Authority will pay interest at 6.405% per annum and receive interest at a floating rate. The Authority intends to redeem the 1985 Bonds and 1988 Bonds that were not advance refunded with the proceeds of the 1993 Bonds on or before July 1, 1995 with floating rate tax-exempt refunding bonds in order, as nearly as practicable, to match the floating rate interest received under the swap arrangement. This arrangement modified and replaced the forward interest rate swap arrangement which existed at June 30, 1992. The Authority received approximately $ 2,149,000 as a result of terminating the previous interest rate swap agreement. This amount is included within other revenue on the accompanying statements of income for the year ended June 30, 1993.

The Authority does not anticipate any losses over the term of this agreement.

CREDIT ENHANCEMENT AGREEMENT:
During fiscal 1991, the Authority entered into a Credit Enhancement Agreement in connection with an unrelated partnership's bond issuance. The bonds were issued to provide financing to the partnership (the Borrower) for construction, which was completed in fiscal 1993, of a conference center and hotel located at Logan Airport. The credit enhancement agreement represents a guarantee by the Authority to pay bondholders up to $9.7 million, in the event the Borrower does not have sufficient funds (as defined) to meet its debt service requirements.

In the opinion of the Authority's management, no advance against the credit enhancement agreement is anticipated during the next 12 months. However, any such advance, then taking the form of a loan from the Authority to the Borrower, would bear interest at 10% interest.

THIRD HARBOR TUNNEL:
The Massachusetts Highway Department (MHD) is in the process of extending the eastern terminus of the Massachusetts Turnpike to Logan Airport by constructing a new tunnel under Boston Harbor.

The Third Harbor Tunnel Project (the "Tunnel Project") affects the Authority in a variety of ways. The effects include the necessity of eminent domain takings or land acquisitions by the MHD of certain real property in South Boston and Logan Airport to accommodate the construction and operation of the Tunnel Project. On October 3, 1991, the Authority and the MHD entered into a Sale/Mitigation Agreement (the "Agreement") to establish a framework for land acquisitions by the MHD for the tunnel project. Specifically, the Agreement provides for acquisitions of Authority land by purchase by the Commonwealth, coupled with mitigation by the Commonwealth of the affects of such acquisitions. Mitigation will include, for example, provision of replacement parking, construction of temporary roadways and payment of increased operating expenses and lost revenues. In addition, the Agreement provides that the Authority will retain substantial rights in the land acquired by the Commonwealth; air and development rights over the below ground surface portions of the Tunnel Project, for example. Moreover, the Agreement provides that the Commonwealth perform necessary hazardous waste remediation associated with the land acquired for the Tunnel Project. The Authority expects that the acquisitions will not ultimately result in any material change in its financial position.

In January of 1993, the Authority received $10,000,000 from the Commonwealth for a taking of land by eminent domain in connection with construction of the Tunnel Project. A portion of the award $2,767,000 was deposited in escrow as an incentive for the affecred tenant to construct a parking facility. If the facility is not built by June 30, 1999, these funds will revert back to the Authority.

Continued

I. Contingent Liabilities and Commitments, continued:

Mitigation Agreement:
On June 30, 1993 the Authority entered into a Mitigation Agreement with one municipality and two community organizations (the agreement was intended to be signed by eight community organizations), which addressed measures to be taken to mitigate environmental impacts of the operation of Logan Airport. At this time, the Authority is unable to estimate reasonably the cost of the agreement, because some of the measures are contingent on events and future activity related to the Airport which at this time cannot be reasonably estimated. Moreover, the enforceability of the mitigation agreement is the subject of a lawsuit by the two community organizations who signed it as set forth in footnote K below. The Authority is renegotiating the agreement with the three original signatories and the six other community organizations in order to achieve community unanimity and more specific cost definition.

J. Payments In Lieu of Taxes:

The Enabling Act authorizes and directs the Authority, subject to certain standards and limitations, to enter into agreements to make annual payments in lieu of taxes to Boston, Chelsea, and Winthrop. In fiscal 1992, the Authority's obligation to Chelsea for annual in lieu of tax payments through 2012 was satisfied by a payment of $5,000,000.

In fiscal 1994, the Authority entered into an extension of and amendment to its agreement with Winthrop which extended the base in lieu of taxes payments through fiscal 1999 and added further components to such payments: a parks/related facilities portion, payable through fiscal 2011, of $150,000, to be adjusted annually based upon the percentage increase in the number of annual air passengers at Logan Airport; and a tree planting portion of $12,500, payable through fiscal 1998. The Authority is currently engaged in negotiations with the City of Boston concerning a comprehensive amendment and restatement of their agreement regarding annual payments in lieu of taxes and the amount payable annually by the Authority to Boston pursuant to any such amended and restated agreement cannot be predicted. The Authority's Enabling Act and the Trust Agreement provide that annual payments may not exceed the balance of revenues remaining after deposits to the 1978 Debt Service Fund, payment of operating expenses, deposits to the 1985, 1988, 1990, 1992 and 1993 Interest and Sinking Funds and deposits to the Maintenance Reserve Fund.

K. Litigation:

Potential Logan Airport Soil and Groundwater Contamination:

In April 1991, the Massachusetts Department of Environmental Protection ("DEP") sent the Authority a Notice of Responsibility under M.G.L. c. 21E, Section 5(a) alleging that there have been releases of oil and hazardous materials at Logan Airport and that, as the owner of Logan Airport, The Authority is a "responsible party" liable for the costs of investigating, assessing and remediating soil and groundwater contamination at Logan Airport. The Authority has completed its Phase I Limited Site Investigation under the Massachusetts Contingency Plan and has submitted its Phase II Comprehensive Site Investigation to DEP for review. While the full nature and extent of releases and any necessary remedial and cleanup measures have yet to be determined, response costs under c. 21E may be substantial. The Authority, however, expects to be able to recoup some of its costs of compliance with c. 21E from third parties who are responsible for the contamination. In the spring and summer of 1994 the Authority sent letters to over thirty current and the former tenants at Logan demanding payment in past and future cleanup costs. In addition the Authority expects to receive some of its cleanup costs from liability insurance carriers who provided coverage to the Authority. The Authority expects to recover any remaining costs of compliance through increased rates and charges levied upon users of Logan Airport.

Mitigation Agreement:
The Authority is involved in litigation seeking to enforce a Mitigation Agreement that was signed on June 30, 1993. The Authority is vigorously defending the lawsuit. The litigation is in its early stages, and it is too early to assess its outcome. However, if the litigation is resolved against the Authority, it is the Authority's judgment that the outcome would not cause a material adverse affect on the financial condition of the Authority.

The Authority is also a defendant in a number of legal proceedings arising in the normal course of business. Management, after reviewing all actions and proceedings pending against or involving the Authority with legal counsel, believes that the aggregate liability of loss, if any, resulting from the final outcome of those proceedings will not materially affect the Authority's financial statements.

L. Leases:

The Authority leases a major portion of its Aviation and Port Properties to various tenants. Most of these operating leases provide for periodic adjustments to rental rates. In addition, certain of the lease agreements contain provisions for contingent payments based on a specified percentage of the tenant's gross revenue. Rental income from contingent payments received under these provisions was approximately $24,190,000 and $26,669,000 for 1994 and 1993, respectively.

Minimum future rental income, excluding contingent rentals, from noncancelable operating leases as of June 30, 1994 are:

	Year	Amount
	1994	$ 20,451
	1995	19,648
(dollars in thousands)	1996	18,662
	1997	17,510
	1998	15,419
	Thereafter	259,872
	Total	$351,562

The following is a schedule by years of future minimum rental payments under noncancelable operating leases as of June 30, 1994:

	Year	Amount
	1995	$ 9,811
	1996	8,171
(dollars in thousands)	1997	7,059
	1998	5,215
	1999	4,536
	Thereafter	69,808
	Total	$104,600

M. Related Party Transactions:

The Authority has a lease agreement with the Commonwealth for office space at the State Transportation Building which expires on June 30, 1995 and is currently working to extend the lease. The Authority paid rental fees of approximately $1,508,000 for the year ended June 30, 1994. The Authority's commitment to the Commonwealth for this lease is approximately $1,524,000 for 1995.

PROPERTIES & PERFORMANCE, FY94

Gross Revenues, Authority wide	$248.9 million
Net Income	$24.6 million

Logan International Airport, East Boston

Total Passengers	24.7 million
Domestic	21.1 million
International	3.6 million
Total Pounds of Cargo and Mail	884 million

L.G. Hanscom Field, Bedford

Total Operations (Takeoffs/Landings)	188,144

Tobin Memorial Bridge

Total Vehicle Crossings	23.1 million

The Waterfront

PORT INDUSTRY FACILITIES

Moran Container Terminal, Charlestown	
Container Volume	54,260*
Salt	118,904 tons
Conley Terminal, South Boston	
Container Volume	38,371*
Automobile Processing	22,389
Massachusetts Marine Terminal and Former Navy Recreation Property, South Boston	
Automobile Processing	8,738
Army Base, South Boston	
Cement Handled	66,059 tons
Waterfront Properties	
Fish Pier, South Boston	
Fish Processed, pounds	19 million
Fish Landed, pounds	9.5 million
Black Falcon Cruise Terminal, South Boston	
Total Cruise Passengers (cruise season-1994)	79,456

*Includes "Over the Road" volumes.

World Trade Center Boston, South Boston

Exhibition and conference space at Commonwealth Pier leased to private developers.

Constitution Plaza, Charlestown

Multi-purpose office and retail space at Hoosac Pier leased to private developers.

East Boston Shipyard, East Boston

Leased to private entity for ship repair and marine industrial development.

Revere Sugar, Charlestown

Leased to Massachusetts Water Resource Authority. The Massachusetts Port Authority is an independent revenue bonding authority chartered by the Massachusetts State Legislature and supported by revenues from the facilities it owns and operates.

Equal Opportunity for All

In support of the basic principles of the Massachusetts Executive Orders, and in compliance with state and federal laws on affirmative action, Massport is committed to a program of effective affirmative action through institutionalized procedures that ensure equal opportunity in its personnel practices, daily operations, and business transactions.

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Stephen P. Tocco • Executive Director & CEO

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Massachusetts Port Authority
massport
INTERNATIONAL

Massachusetts Port Authority

Charting a Course for a Global Future

TOURISM →

→ LOGAN IMPROVEMENTS →

→ PORT POTENTIAL →

→ EFFICIENCY AND SAFETY →

→ OUTREACH AND SUPPORT →

The Massachusetts Port Authority (Massport) is a world-class independent public authority which develops, promotes and manages airports, the seaport and transportation infrastructure to enable Massachusetts and New England to compete successfully in the global economy. An economic engine for the region and an international gateway to New England, Massport is a responsible corporate citizen, committed to its employees, customers and the public interest.

1 Massport will stimulate economic growth throughout the region by reducing air traffic congestion and improving access to and from Logan International Airport.

2 Massport will revitalize the Seaport of Boston for increased industrial, commercial, tourism and recreational uses.

3 Massport will increase international trade and tourism by expanding current markets and penetrating new ones.

4 Massport will be a high-performance organization prioritizing customers, employees and efficiency.

5 Massport will seek the support of government officials, the business community and the general public for its programs, policies and initiatives.

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Message from the Chairman

My tenure as Massport chairman coincidentally comes at one of the most exciting periods of development ever envisioned at the Authority and I relish the challenge of working with my fellow board members, Executive Director and CEO Steve Tocco and the entire staff as these plans become reality.

Massport's mission is expansive in its outlook, but personal in its responsibilities and results. At Logan International Airport, our commitment to keeping airside and roadway traffic congestion at a minimum keeps international trade on the move while reducing air and noise pollution for our neighbors.

Our emphasis on the Port of Boston's potential has helped to maintain the competitive edge for local products and services, enhances the use of cross-harbor transportation and reintroduces the public to its waterfront. Trade and tourism bring jobs and economic benefits to our region, increasing the overall quality of life for our citizens.

As we put increased priority on customer service and efficiency, we ensure that our facilities offer top quality operations without wasting either personnel or material resources. Most importantly, we aim to give something back to our neighbors, whether through funding for community programs, educational scholarships, mentoring, job/contracting opportunities or staff assistance.

A working partnership with Massachusetts Governor William Weld and Lt. Governor Paul Cellucci has already resulted in a pending bond bill to revitalize the waterfront, as well as an opportunity to participate in state-wide port planning.

Massport's ambitious agenda is balanced, progressive and essential to the long-term prosperity of everyone who lives, works or does business in New England. I look forward to building on the foundation which has already been established in FY 95.

Mark Robinson

Mark E. Robinson
Chairman

Message from the Executive Director and CEO

Last year, as I completed my first full term as Massport's executive director and CEO, I was committed to charting a visionary course for the Authority's future based on a top-to-bottom review of our policies, programs and internal systems. With the help of Massport's employees, we developed a demanding five-goal mission statement.

This Fiscal Year 1995 Annual Report illustrates how this clear sense of mission has already positively affected Massport's customers, neighbors and workers and how it will serve to keep us focused on meeting the transportation and trade requirements of the 21st Century.

At Logan International Airport, an emphasis on route development, fast action on our $1.2 billion Logan 2000 improvement program and exploration of the construction of Runway 14/32 to alleviate airside congestion are all preparing us to handle the increased demands of international trade as well as the 45 million passengers expected to use Logan by the year 2010.

We've reenergized the Port of Boston through improved customer service, marketing and infrastructure. Tangible results include Volkswagen's recent selection of Boston as its entry point into the U.S. marketplace and the presence of the best cruise lines in the business at our cruise terminal.

Even as we build a better airport and seaport, we're striving to encourage the corresponding growth in trade and tourism. By sharing resources, streamlining functions and investing in state-of-the-art technologies, we've generated over $97 million in trade activity and $1.3 billion in tourism activity for the local economy.

If the accomplishments of the past year at Logan, the Port of Boston, in trade and tourism, customer service and community outreach are any measure, we have a promising blueprint for success and I look forward to its full implementation.

Stephen P. Tocco

Stephen P. Tocco
Executive Director and CEO

With 45 million passengers expected to converge on Logan International Airport by the year 2010, Massport is working on a complementary program of improvements

Reducing Congestion and Improving Access at Logan

Stimulating the economy through Logan's improvements

to keep air traffic and roadway congestion under control. Already, important milestones in the $1.2 billion Logan 2000 program have been reached. Ground has been broken for the Terminal E modernization program, intended to ease the handling of widebody jets as well as the processing of the international passengers they're transporting. Environmental approvals have also been secured for the West Garage project and construction has begun on the Bird Island Flats Garage, allowing for better management of parking slots and on-airport traffic flow.

Massport is simultaneously exploring ways to specifically reduce delays, improve efficiency and enhance the safety of Logan's airfield. The Authority has recently completed Phase I of the Logan Airside Planning Project and initiated its environmental review process. The study's recommendations include a new commuter runway, a new taxiway, adjustments to taxiway alignments, modifications to aircraft arrival and departure procedures, introduction of limited peak-hour pricing and use of emerging technologies.

Roadway traffic congestion and local air quality have been improved through the scheduling of airside construction projects on nights and weekends, as well as through the introduction of new transportation options. Vehicles powered by cleaner-burning alternative fuels are up and running airport-

• LOGAN IMPROVEMENTS →

"We're implementing innovative airfield and terminal improvements today to ensure that Logan is prepared to meet the air travel needs of New England's 21st century economy."

Betty Desrosiers,
director,
aviation planning

Sam Sleiman,
deputy director
of aviation,
Logan 2000

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wide and new cross-harbor water taxis now supplement the Logan Water Shuttle. Plus Massport's Logan Express buses — from Braintree, Woburn, and Framingham — transported a record 721,147 passengers.

Safety and emergency response continue to be top priorities. The new Logan Fire Station is operational, construction has begun on the Aircraft Rescue and Fire Fighters (ARFF) Satellite facility and permitting has been obtained for the Logan ARFF Marine facility.

As owner and operator of New England's largest airport, Massport is also active in promoting development and use of other local air facilities throughout the six-state region. The Authority collaborated with the New England Council and the Massachusetts Aeronautics Commission to explore the overall potential of regional aviation. In addition, Massport has spearheaded a successful revitalization of Worcester Airport through $250,000 in marketing and technical assistance.

"We're implementing innovative airfield and terminal improvements today to ensure that Logan is prepared to meet the air travel needs of New England's 21st century economy."

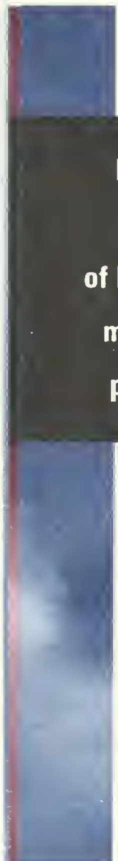
Betty Desrosiers, director, aviation planning

Sam Sleiman, deputy director of aviation, Logan 2000

GOAL 1

Drawing on an eight-point action plan, Massport is overseeing an exciting port renewal. Improvements at the public terminals in the Port of Boston have

Revitalizing Multi-Use Port Potential



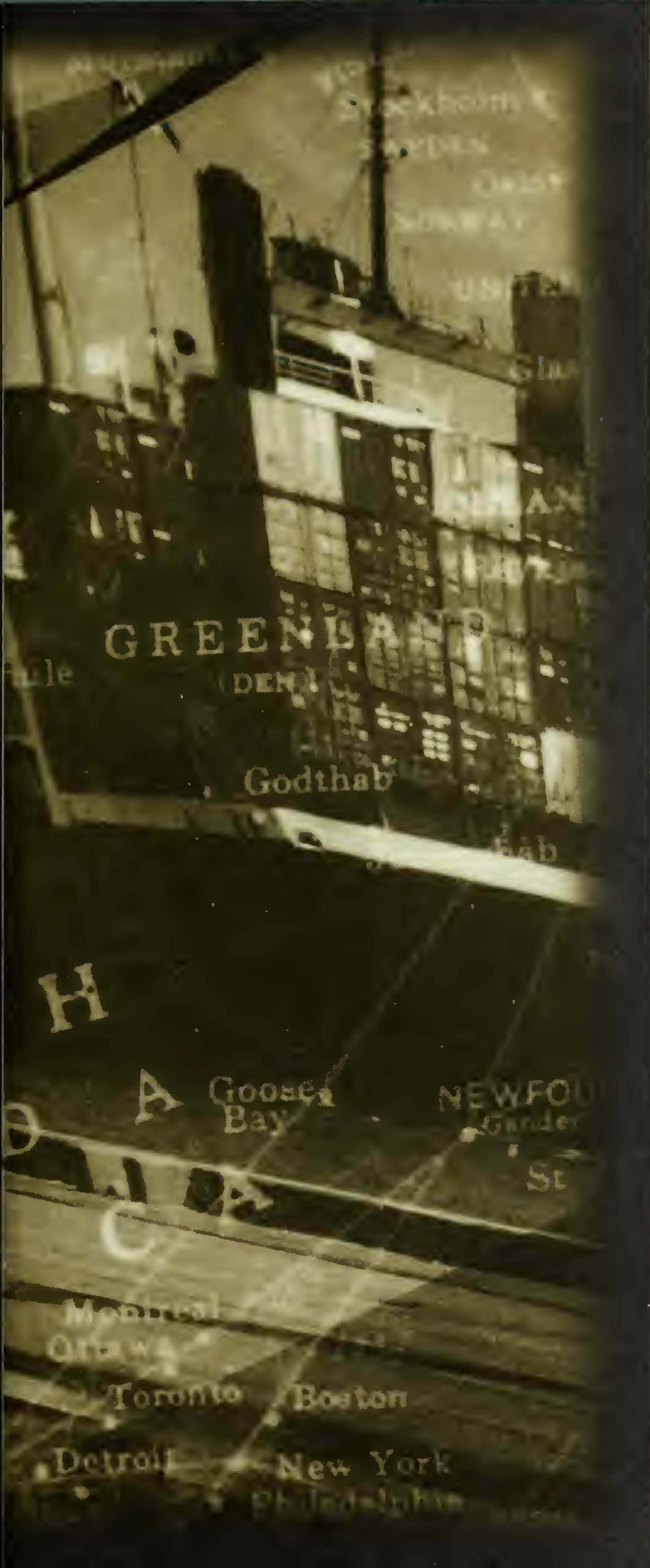
Building the Port of Boston's multi-use potential

prepared Boston to handle the cargo demands of the future.

Conley Terminal is in the final stages of a rehabilitation and enhancement program designed to make it the first and last port of call for the new generation of post-Panamax (larger-than-Panama-Canal) container ships due on the North Atlantic by 1997-1998. Two new cranes have been installed, while the existing two cranes have been reconfigured to post-Panamax capacity. Additional improvements include construction of a new berth, lengthening of the existing berth to 1,950 feet, expansion of backland storage areas and preliminary work on a fully automated entry and exit gate system.

A program to dredge the harbor is on schedule, preparing Boston to serve increasingly larger cargo vessels. On land-side, Massport, Governor William Weld and Lt. Governor Paul Cellucci have crafted the pending "Seaport Revitalization and Freight Access Improvement" bond bill, which allocates funds to refit rail lines to accommodate "doublestack" cargo trains.

In addition to aggressively seeking a direct Asian carrier to handle Boston's expanding Far East trade, the Authority has improved the passenger amenities at its Black Falcon Cruise Terminal to retain as well as attract top cruise lines and their clientele. As always, maintaining productive



"Whether it's the small details of running a terminal or the big picture of Boston's overall maritime future, we're striving to make one of the oldest ports in the U.S. one of the most modern in terms of both day-to-day technology and long-term vision."

Kitty Lau,
billing systems coordinator

Dennis Kay,
deputy port director, operations

GOAL 2

Drawing on an

plan, Massport is ov

port renewal. Impro

terminals in the Por

Revitalizing

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Building the Port of Boston's multi-use potential

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labor relations continues to be a priority for all seaport operations.

Massport is participating with the City of Boston on the "Seaport Economic Development Plan," a joint planning effort to explore the economic development potential of the waterfront. On its own initiative, Massport has already completed Phase I of the East Boston Piers Park (purported to be the largest waterfront park in the U.S.), is finalizing design and environmental permitting for rehabilitation of the Boston Fish Pier's Exchange Building as a business presentation center and has overseen the environmental process for demolition of the obsolete Medford Street Terminal.

"Whether it's the small details of running a terminal or the big picture of Boston's overall maritime future, we're striving to make one of the oldest ports in the U.S. one of the most modern in terms of both day-to-day technology and long-term vision."

Kitty Lau,
billing systems coordinator

Dennis Kay,
deputy port director, operations

G O A L 2

Massport's trade development and tourism marketing departments are jointly spearheading a program to build Boston's reputation and business earnings as a world

Increasing International Trade and Tourism

Generating increases in trade and tourism

trade and tourism leader. Their newly integrated marketing plans allow collaboration on sales missions; utilization of international representatives and staff in London; Berlin; Jerusalem; Guangzhou, China; Mexico; Taipei, Taiwan; Singapore; and Seoul, South Korea; and representation of joint interests anywhere in the global arena.

Over $97 million in economic activity — with $42 million from the direct export of physical goods alone and $12 million of that cargo handled by Massport's air and sea facilities — has been generated by trade missions to countries including the U.K, Ireland, Taiwan, Vietnam, India and South Africa. In addition, Massport is working with the U.S. Department of Commerce through a $360,000 grant to promote sales of consumer goods to emerging markets, further expanding Boston's base of operations.

Intensive tourism marketing programs have been initiated in 10 international markets, tourism representatives have been selected in five emerging Asian and Latin American markets and "Massport University," a pilot program for travel agents, is being tested in Italy. Massport has been present at 28 international travel trade shows including Europe's three largest — ITB in Berlin, the World Travel Mart in London and Fitur in

"By reaffirming old relationships, exploring new venues and ensuring excellence in transportation options, we're making trade and tourism one of the fastest-growing sectors in the regional economy."

Bob Wassman, market research and route development manager

Margot DeNoie, trade representative, Latin America

GOAL 3

Massport's trade

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Madrid — and tourism missions have been conducted to Italy, Japan and the U.K. Massport has also participated in cooperative marketing efforts with regional organizations such as New England USA and Discover New England. Already, double-digit visitor increases have been reported from target markets in Asia, Europe and South America, worth $1.3 billion to the Massachusetts economy.

Plus, a specialized planning and route development team is now in place, committed to increasing passenger and air cargo service between Boston and Europe, Japan, Asia and Latin America. Accomplishments to date include inaugural USAir service to Frankfurt, new British Airways service to Glasgow and exploration of joint venture partnerships with the Scottish Trade Group, a second daily American Airlines flight to London and the introduction of Icelandair service to Scandinavian and other European "open skies" countries.

"By reaffirming old relationships, exploring new venues and ensuring excellence in transportation options, we're making trade and tourism one of the fastest-growing sectors in the regional economy."

Bob Wassman, market research and route development manager

Margot DeNoie, trade representative, Latin America

GOAL 3

Massport has streamlined its departments, repositioned its employees and reorganized its priorities to put a new emphasis on customer service, value-added

Prioritizing Customers, Employees and Efficiency

Putting customers, employees and efficiency first

service and the "human factor." At Logan International Airport, employees are participating in a new program called "Non-Stop Customer Service," which encourages them to envision new ways to provide personalized assistance to each and every customer they encounter. Plus a special employee recognition program and a tenant appreciation program have been instituted to reward exceptional efforts and acknowledge innovative ideas.

The targeted activity by Massport's planning and route development team has provided Logan's customers with better service to a greater number of worldwide destinations, saving them time and money. Getting to and from the airport has also never been easier or more cost-effective, with Massport's comprehensive mix of ground access alternatives including Logan Express Bus service from Woburn, Framingham, and Braintree; Logan Water Shuttle service from Boston; cross-harbor water taxi service, Boston / Hingham boat service and free on-airport shuttle bus service connecting the Airport MBTA station with all major airport terminals.

At the Port of Boston's Moran Terminal, steamship lines benefit from a new Electronic Data Interchange system, which tracks the

"We want our customers to always enjoy the highest quality of service, so we're addressing issues in innovative ways, instituting new training and recognition programs for our workforce, and encouraging increased levels of safety and skill throughout the agency."

Delcine Gibbs, public safety administrator

Mark Richardson, manager of transportation services

GOAL 4

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location of their cargo within the terminal yard. Passengers at the Black Falcon Cruise Terminal enjoy improved customer amenities while they wait to board the greatest number of ships Boston has hosted in nearly 50 years.

Global marketers — present or potential — receive one-stop assistance through Massport's newly realigned trade and tourism departments. Advice, assistance, market research, referrals to brokers, freight forwarders and distributors — and much more — is available via a single phone call or fax.

Both the Tobin Bridge and Hanscom Field have fine-tuned their maintenance and snow removal programs, keeping customers safely on the move and operations on track. Authority-wide, management, administrative and union staff meet regularly to discuss new and even better ways of adding value for Massport's customers and job satisfaction for Massport's employees at each and every facility, every day, around-the-clock.

"We want our customers to always enjoy the highest quality of service, so we're addressing issues in innovative ways, instituting new training and recognition programs for our workforce, and encouraging increased levels of safety and skill throughout the agency."

Delcine Gibbs, public safety administrator

Mark Richardson, manager of transportation services

GOAL 4

Massport's success in providing a 21st century trade and transportation system and the trained staff to operate it, as well as an economic stimulus for the region, depends on

Seeking Government, Community and Public Support

Seeking support for programs, policies and initiatives

how well its constituencies — especially its employees, contractors and closest neighbors — understand, support and are involved in its goals and overall mission.

Communicating quickly and concisely is essential and a new approach featuring multi-departmental participation has proven highly effective, especially when introducing major projects such as the proposed construction of Logan's Runway 14/32. Massport regularly holds public hearings and meetings to provide information and receive community input on projects ranging from Logan 2000 to the Seaport Economic Development Plan. Plus, a speakers' bureau puts knowledgeable staff members together with their audiences.

On the local level, Massport has committed itself to being a responsible corporate neighbor to its impacted communities, directing staff and financial resources to stimulate local employment and business opportunities; assist community services; and provide technical aid to neighborhood groups for review of Massport projects.

Massport has emphasized youth development, arranging employment through its combined student jobs programs for over 500 high school and college students; supporting the Concerned Minority Employee program which prepares minority youth to meet 21st century work standards; collaborating with Historic Neighborhoods on the CityBuild program which introduces local high school students to planning, design and

• OUTREACH AND SUPPORT •

"No matter what the issue or action, one of the most critical duties we have is to facilitate discussion, increase understanding, and keep the lines of communication open between our organization and those groups that have an interest in our operations and goals."

Barbara Platt,
public outreach
coordinator,
Logan 2000

John Krajovic,
public outreach
manager,
Logan 2000 and
East Boston

GOAL 5

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construction careers; and assisting with a business skills training program now located at the Logan Office Center.

Massport is also directly increasing employment and financial benefits in local communities through specialized seminars for small entrepreneurs; targeted outreach to women and minority-owned businesses at events like a recently co-sponsored reception with the Board of the American Association of Airport Executives; and publication of a guidebook to East Boston restaurants. To date, Massport's workforce is 32 percent female and 17 percent minority, with 23 percent residents of impacted communities; 13.6 percent of its construction and 23.3 percent of its design contracts were awarded to women and minority-owned businesses in FY'95.

Contributions to quality-of-life projects have also been a Massport priority, helping to build the green space of Charlestown's Medford Street Buffer Zone, a traffic-relieving ferry dock at Lewis Wharf, recreational sailing programs in East Boston and Winthrop and restoration of the Lewis Lake Salt Marsh in Winthrop.

"No matter what the issue or action, one of the most critical duties we have is to facilitate discussion, increase understanding, and keep the lines of communication open between our organization and those groups that have an interest in our operations and goals."

Barbara Platt,
public outreach coordinator,
Logan 2000

John Krajovic,
public outreach manager,
Logan 2000 and East Boston

GOAL 5

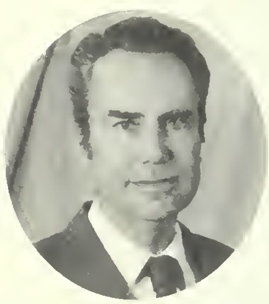
Board Members

The Massport Board consists of seven members appointed by the Governor of Massachusetts to staggered terms of seven years each. Members serve without compensation.

Mark E. Robinson
chairman, is an attorney at the Boston law firm of Bingham, Dana and Gould.
→ Term Expires 2002

Paul W. Cronin
vice chairman, is chairman of PWC & Associates of Andover, an international consulting firm specializing in development.
→ Term Expires 1998

Carolyn P. Partan
is a real estate attorney at the Boston law firm of Hale and Dorr.
→ Term Expires 1996



Frederick P. Salvucci
is a principal research associate at MIT's Center for Transportation Studies in Cambridge.
→ Term Expires 1997

James H. Carangelo
is president of Business Planning Associates of Lynnfield, an employee benefit sales and consulting firm.
→ Term Expires 1999

George W. Cashman
is president and chief executive officer of the International Brotherhood of Teamsters, Local #25 in Charlestown.
→ Term Expires 2000

James M. Coull
is chairman of the board of J.M. Coull, Inc./JMC Environmental Systems of Concord, a full-service construction firm.
→ Term Expires 2001

REPORT OF INDEPENDENT ACCOUNTANTS

To The Members of the Massachusetts Port Authority:

We have audited the accompanying balance sheet of the Massachusetts Port Authority (a public instrumentality of the Commonwealth of Massachusetts) as of June 30, 1995, and the related statements of income, changes in fund equity and cash flows for the year then ended. We previously audited and reported upon the financial statements of the Authority for the year ended June 30, 1994 for which condensed statements are presented for comparison purposes only. These financial statements are the responsibility of the Massachusetts Port Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Port Authority as of June 30, 1995, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Boston, Massachusetts
September 7, 1995

BALANCE SHEETS

June 30,1995 and 1994

Assets	1995			1994
(dollars in thousands)	Port Authority Operations	PFC Program	Combined	Combined
Cash and cash equivalents (Notes A and C)	$ 16,588	$ —	$ 16,588	$ 30,759
Investments (Notes A and C)	33,713	—	33,713	27,554
Accounts receivable, net of allowance for doubtful accounts of $10,082 and $10,769 in 1995 and 1994, respectively	17,905	2,261	20,166	20,618
Accounts receivable – grants (Note A)	11,721	—	11,721	4,345
Prepayments and other assets, net	20,529	—	20,529	15,971
Assets whose use is limited, including cash and cash equivalents of $59,671 and $35,025 in 1995 & 1994, respectively (Notes A, C, and H)	245,380	40,705	286,085	299,966
Investment in facilities (Notes A and D):				
Facilities completed	1,320,641	—	1,320,641	1,230,293
Less accumulated depreciation	(577,878)	—	(577,878)	(534,141)
	742,763	—	742,763	696,152
Construction in progress	130,451	4,851	135,302	123,285
Net investment in facilities	873,214	4,851	878,065	819,437
Total Assets	$1,219,050	$47,817	$1,266,867	$1,218,650

Liabilities and Fund Equity

Liabilities

Accounts payable and accrued expenses (Note H)	$ 57,545	$ —	$ 57,545	$ 53,760
Accrued compensated absences (Note A)	9,797	—	9,797	8,486
Accrued pension cost (Note G)	1,813	—	1,813	2,350
Accrued interest payable	15,695	—	15,695	18,345
Funded debt (Note F)	530,092	—	530,092	543,025
Deferred income (Note A)	2,339	—	2,339	5,757
Total Liabilities	617,281	—	617,281	631,723
Contingent liabilities and commitments (Notes I, K & L)				

Fund Equity (Notes A and B)

Accumulated fund equity	482,468	47,817	530,285	479,327
Contributed capital, grants-in-aid of construction	119,301	—	119,301	107,600
Total Fund Equity	601,769	47,817	649,586	586,927
Total Liabilities and Fund Equity	$1,219,050	$47,817	$1,266,867	$1,218,650

The accompanying notes are an integral part of these financial statements.

S T A T E M E N T S O F I N C O M E

For the years ended June 30, 1995 and 1994

	1995			1994
(dollars in thousands)	Port Authority Operations	PFC Program	Combined	Combined
Operating Revenues (Note B):				
Tolls, fees and sales of services	$139,687	$ —	$139,687	$129,605
Rentals (Note L)	58,335	—	58,335	58,438
Concessions (Note L)	30,794	—	30,794	28,763
Other (Note I)	6,835	—	6,835	6,597
Total Operating Revenues	235,651	—	235,651	223,403
Operating Expenses (Note B):				
Operations and maintenance	102,293	—	102,293	99,991
Administration	44,226	—	44,226	39,335
Insurance (Note A)	2,904	—	2,904	2,675
Pension costs (Note G)	2,491	—	2,491	2,415
Payments in lieu of taxes (Note J)	6,409	—	6,409	6,237
Provision for uncollectible accounts	(800)	—	(800)	(523)
Total Operating Expenses	157,523		157,523	150,130
Depreciation and amortization, including $6,293 and $5,525 in 1995 and 1994, respectively, on assets acquired with contributed capital, grants-in-aid of construction (Note A)	46,317	—	46,317	42,908
Income from Operations	31,811	—	31,811	30,365
Loss on sale of equipment	(1,137)	—	(1,137)	—
PFC Revenue (Note A and E)	—	31,187	31,187	14,937
Financial income and expense:				
Income on investments (Note A)	12,967	1,573	14,540	10,561
Interest expense (Note A and I)	(31,736)	—	(31,736)	(31,253)
Net Income	$ 11,905	$32,760	$ 44,665	$ 24,610

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN FUND EQUITY

For the years ended June 30, 1995 and 1994

(dollars in thousands)	Accumulated Fund Equity	PFC Program	Contributed Capital, Grants-in-Aid of Construction	Total Fund Equity
BALANCE, JUNE 30, 1993	**$449,192**	**$ —**	**$101,882**	**$551,074**
Net income	9,553	15,057	—	24,610
Contributed capital, grants-in-aid of construction (Note A)	—	—	11,243	11,243
Transfer of depreciation to contributed capital	5,525	—	(5,525)	—
BALANCE, JUNE 30, 1994	**464,270**	**15,057**	**107,600**	**586,927**
Net income	11,905	32,760	—	44,665
Contributed capital, grants-in-aid of construction (Note A)	—	—	17,994	17,994
Transfer of depreciation to contributed capital	6,293	—	(6,293)	—
BALANCE, JUNE 30, 1995	**$482,468**	**$47,817**	**$119,301**	**$649,586**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 1995 and 1994

(dollars in thousands)	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 236,577	$ 232,447
Cash payments:		
To vendors for goods and services	(91,820)	(83,469)
To employees for services	(59,777)	(56,519)
Payments in lieu of taxes	(6,409)	(6,237)
Net cash provided by operating activities	78,571	86,222
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Grants-in-aid of construction	10,618	16,809
Acquisition and construction of capital assets	(108,264)	(101,345)
Proceeds from sale of bonds	71,715	—
Proceeds from sale of equipment	34	—
Principal paid on refunded debt	(72,525)	—
Principal paid on funded debt	(11,315)	(8,310)
Interest paid on funded debt	(38,340)	(36,504)
Payment of refunding cost	(2,785)	—
Proceeds from passenger facility charges	28,896	14,937
Net cash used for capital and related financing activities	(121,966)	(114,413)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,786,842)	(1,724,680)
Proceeds from sale and maturities of investments	1,829,295	1,768,258
Interest on investments	11,417	14,787
Net cash provided by investing activities	53,870	58,365
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,475	30,174
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	65,784	35,610
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 76,259	$ 65,784

The accompanying notes are an integral part of these financial statements.

June 30,1995 and 1994, continued

(dollars in thousands)	1995	1994
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	$ 44,665	$ 24,610
Less: income on investments	(14,540)	(10,561)
proceeds from passenger facility charge	(31,187)	(14,937)
Add: interest expense	31,736	31,253
loss on sale of equipment	1,137	—
	$ 31,811	$ 30,365
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and amortization	46,317	42,908
Provision for uncollectible accounts	(800)	(523)
Change in assets and liabilities:		
Decrease in accounts receivable	3,542	5,425
Increase in prepayments and other assets	(4,301)	(6,967)
Increase in accounts payable and accrued expenses	4,646	11,396
Increase in accrued compensated absences	1,311	1,030
Decrease in accrued pension cost	(537)	(507)
(Decrease) increase in deferred income	(3,418)	3,095
Total adjustments	46,760	55,857
NET CASH PROVIDED BY OPERATING ACTIVITIES	$78,571	$86,222
NON-CASH ACTIVITIES UNAMORTIZED LOSS ON FUNDING	$ 1,554	$ —

The accompanying notes are an integral part of these financial statements.

The Massachusetts Port Authority (the Authority) is a public instrumentality created by an act of the Legislature (the Enabling Act) of the Commonwealth of Massachusetts (the Commonwealth), effective June 21, 1956. The Authority controls, operates and manages Boston-Logan International Airport (Logan Airport), Hanscom Field, Maurice J. Tobin Memorial Bridge (Tobin Bridge) and other facilities in the Port of Boston. The Authority has no stockholders or equity holders. The provisions of the Enabling Act and the 1978 Trust Agreement (the Trust Agreement) with the Authority's bondholders govern the disposition of cash revenues to the various funds established under the Trust Agreement and restrict the use of such revenues credited to the various funds.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

These financial statements have been prepared in conformity with generally accepted governmental accounting principles.

(1) ASSETS WHOSE USE IS LIMITED

The balance sheet caption, "assets whose use is limited," represents restricted or trusteed assets under the Trust Agreement that are earmarked to fund certain activities of the Authority such as construction of new facilities and debt service. Assets to fund deferred compensation are included under this caption (See Note C).

(2) STATEMENTS OF CASH FLOWS

For purposes of the statements of cash flows, the Authority considers all highly liquid investments (including assets whose use is limited) with a maturity of 30 days or less when purchased to be cash equivalents.

(3) INVESTMENTS

Investments in U.S. Government securities are recorded at amortized cost, which approximates market value including accrued interest. Investments in repurchase agreements are recorded at cost including accrued interest.

(4) SELF-INSURANCE

The Authority, as mandated by the Trust Agreement, maintains a self-insurance account within the operating fund. The Authority is self-insured for certain major catastrophe-type risks and worker's compensation claims (effective January 1, 1993), but maintains insurance coverage for claims in excess of established limits. Investments used to fund self-insurance claims are included within "assets whose use is limited" in the accompanying balance sheets. (See Notes C and K).

(5) INVESTMENT IN FACILITIES

Facilities are carried at cost and include the expenditure of federal grants-in-aid of construction and the cost of significant renewals and betterments. Federal grants-in-aid of construction are recorded as contributed capital as earned and amortized on the straight-line method over the service lives of the related assets. Expenditures for repairs and maintenance are charged to expense as incurred.

(6) DEPRECIATION

Depreciation is provided on the straight-line method based on estimated useful service lives of the related assets beginning in the fiscal year of acquisition or during completion of construction. Depreciation is computed on facilities which are recorded in the accounts of the Authority, including those financed by grants-in-aid of construction.

(7) INTEREST CAPITALIZATION

The Authority capitalizes certain interest associated with the cost of restricted tax-exempt borrowings, less any interest earned on temporary investment of the proceeds of those borrowings during the period of construction. Interest expense of $3,954,000 and $5,447,000 reduced by interest income of $1,929,000 and $2,921,000 for the years ended June 30, 1995 and 1994, respectively, has been capitalized as a part of the cost of construction projects.

(8) ACCOUNTING FOR COMPENSATEO ABSENCES

The Authority accrues for vacation and sick pay when it is earned. The liability for vested vacation and sick pay is reflected in the accompanying balance sheets under the caption "accrued compensated absences."

(9) DEFERRED INCOME

Deferred income includes amounts received from the Commonwealth for the temporary takings of certain properties at Logan Airport for fiscal years 1994 and 1995.

(10) PASSENGER FACILITY CHARGES

Revenues derived from the collection of passenger facility charges are recognized and reported as non-operating revenue by the Authority.

B. REVENUES AND OPERATING EXPENSES AS DETERMINED BY ACCOUNTING PRACTICES PRESCRIBED BY THE TRUST AGREEMENT:

The provisions of the Enabling Act and the Trust Agreement with State Street Bank and Trust Company, as trustee for the benefit of the Authority's bondholders prescribe certain accounting practices to be followed in maintaining the accounts and records of the Authority.

Under the Trust Agreement, monthly cash revenues of the Authority, after providing for required debt service costs on the Revenue Refunding Bonds, Series 1978, from pledged revenues, are transferred to the Operating Fund. After providing for operating expenses, including pension expense and transfers to the self-insurance account, cash revenues are then transferred to the Interest and Sinking Fund (which are applied to debt service on any outstanding bonds other than the Revenue Refunding Bonds, Series 1978), the Maintenance Reserve Fund, the Payment In Lieu of Taxes Fund and the Improvement and Extension Fund. Cash and investments held in the Improvement and Extension Fund, to the extent designated by the Authority, are transferred to the Capital Budget Account.

Under the provisions of the Trust Agreement, all revenues derived from operation of the Tobin Bridge, all aircraft landing fees and motor vehicle parking fees, derived from the operations of the airport properties, and all income from investments held in all funds with the exception of the Construction Funds, Port Properties Fund and self-insurance account are pledged for the debt service requirements of the Revenue Refunding Bonds, Series 1978.

To the extent that pledged revenues exceed debt service requirements, they are available to meet operating expenses and for transfer to other funds. To the extent unexpended, these amounts continue to be available for the debt service requirements in any year.

B. REVENUES AND OPERATING EXPENSES AS DETERMINED BY ACCOUNTING PRACTICES PRESCRIBED BY THE TRUST AGREEMENT, CONTINUED:

Presented below are the 1995 and summary 1994 revenues and operating expenses as determined in accordance with the Trust Agreement and a reconciliation to net income as presented in the accompanying Statements of Income under generally accepted governmental accounting principles (GAGAP). (For Trust accounting purposes, the provision for uncollectible accounts is netted within the revenues caption.)

(dollars in thousands)	Bridge	Airport Properties	Port Properties Maritime	Port Properties Development*	Income on Investments	1995 Total	1994 Total
Revenues, Net:							
1978 Pledged Revenues	$5,897	$ 95,736	$ —	$ —	$11,965	$113,598	$103,154
Other	—	103,316	25,586	5,916	—	134,818	130,752
Passenger Facility Charge (Note E)	—	31,187	—	—	1,573	32,760	15,057
Total	5,897	230,239	25,586	5,916	13,538	281,176	248,963
Operating Expenses:							
Operations and Maintenance	3,655	74,868	21,596	2,174	—	102,293	96,991
Administration	2,499	32,807	6,682	2,238	—	44,226	39,335
Insurance	354	1,852	643	262	—	3,111	3,154
Pension (Note G)	198	2,340	383	107	—	3,028	2,922
Total	6,706	111,867	29,304	4,781	—	152,658	142,402
Excess (Deficit) of Revenues Over Operating Expenses Under Trust Agreement	(809)	118,372	(3,718)	1,135	13,538	128,518	106,561
Add: Self Insurance Cost (1)	23	43	100	41	—	207	479
Pension Adjustment (1)	27	407	82	21	—	537	507
Self Insurance Income on Investments (3)	—	—	—	—	1,002	1,002	458
Less: Payments In Lieu of Taxes (4)	(304)	(4,998)	(836)	(271)	—	(6,409)	(6,237)
Difference on Sale of Equipment (2)	(56)	(870)	(167)	(44)	—	(1,137)	3
Other (4)	—	—	—	—	—	—	(3,000)
Interest Expense (4)	(4,010)	$(20,940)	(5,715)	(1,071)	—	(31,736)	(31,253)
Depreciation and Amortization (4)	(2,931)	(33,165)	(6,787)	(3,434)	—	(46,317)	(42,908)
Net Income (Loss)	$(8,060)	$ 58,849	$(17,041)	$(3,623)	$14,540	$ 44,665	$ 24,610

* Development includes activities related to the Authority's alternative use program, principally the Commonwealth, Fish and Hoosac Piers.

(1) Expensed under Trust Agreement, not an expense under GAGAP.
(2) Equipment is depreciated under GAGAP but not under Trust Agreement.
(3) Not revenue under Trust Agreement, revenue under GAGAP.
(4) Not an operating expense under Trust Agreement, expensed under GAGAP.

C. CASH, CASH EQUIVALENTS AND INVESTMENTS:

The following summarizes the Authority's cash, cash equivalents and investments at June 30, 1995 by the various funds and accounts established under the Trust Agreement with the Authority's bondholders. Summary 1994 information is also presented. (Assets designated for credit enhancement and deferred compensation are also included.)

(dollars in thousands) Use defined for specific purposes:	Cash and Cash Equivalents	Investments	Assets whose use is limited Cash, Cash Equivalents & Investments	1995 Total	1994 Total
1978 Debt Service Fund	$ —	$ —	$ 41,655	$ 41,655	39,932
Operating Fund	3,367	—	—	3,367	16,051
Self-insurance Account	—	—	18,687	18,687	17,479
Maintenance Reserve	—	—	47,663	47,663	57,566
Payments In Lieu of Taxes	—	—	3,577	3,577	3,351
Capital Budget	—	—	35,204	35,204	35,392
Improvement and Extension Fund	13,221	33,713	—	46,934	42,291
1985 Interest and Sinking Fund*	—	—	3,774	3,774	9,829
1988 Interest and Sinking Fund	—	—	4,118	4,118	12,084
1990 Interest and Sinking Fund	—	—	12,275	12,275	11,592
1992 Interest and Sinking Fund	—	—	9,544	9,544	8,496
1992 Construction Fund	—	—	22,400	22,400	59,498
1993 Interest and Sinking Fund	—	—	8,900	8,900	4,122
1993 Project Fund	—	—	27	27	311
1995 Interest and Sinking Fund	—	—	4,682	4,682	—
1995 Project Fund	—	—	340	340	—
Credit Enhancement Account (Note I)	—	—	9,684	9,684	9,943
PFC Accounts			40,705	40,705	12,525
Subtotal	16,588	33,713	263,235	313,536	340,462
Deferred Compensation (Note H)	—	—	22,850	22,850	17,817
Total	$16,588	$33,713	$286,085	$336,386	$358,279

*1985 and 1988 Bonds refunded in full on July 3, 1995

The carrying amount of the Authority's cash deposits was $2,010,000 and $1,934,000 at June 30, 1995 and 1994, respectively. The bank balance was $6,156,000 and $6,614,900 at June 30, 1995 and 1994, respectively. The nature of the reconciling items between the book and bank balance consisted primarily of outstanding checks which had not cleared the bank at year-end. The bank balance was fully collateralized as of June 30, 1995 and 1994.

C. CASH, CASH EQUIVALENTS AND INVESTMENTS, CONTINUED:

The following summarizes the Authority's cash and cash equivalents and investments by type held at June 30, 1995, excluding cash and investment held for purposes of deferred compensation ($22,850,000 and $17,817,000 at June 30, 1995 and 1994 respectively, see note H). Summary 1994 information is also presented.

(dollars in thousands)	Carrying Amount	Market Value
Certificates of Deposit	$ 101	$ 101
Repurchase Agreements	20,277	20,277
U.S. Government Securities:		
Treasury Notes	93,306	94,039
Treasury Bills	30,359	30,398
Federal Farm Credit (FFC)	15,739	15,845
Federal National Mortgage Association (FNMA)	60,587	60,687
Federal Home Loan Bank (FHLB)	45,392	45,544
Federal Home Loan Mortgage Corp. (FHLMC)	44,744	44,736
Total U.S. Government & Agency Securities	290,127	291,249
Fidelity U.S. Treasury Income Portfolio Mutual Fund	1,021	1,021
Total investments	311,526	312,648
Cash in bank	2,010	2,010
Total at June 30, 1995	$313,536	$314,658
Total at June 30, 1994	$340,463	$339,935

The Authority is authorized by the Trust Agreement to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, in bonds or notes of public agencies or municipalities, in bank time deposits and in repurchase agreements. All investments are held on behalf of the Authority by the Authority's trustee and custodian.

The Certificates of Deposit are fully insured by the Federal Deposit Insurance Corporation. Repurchase agreements are collaterized by obligations of the U.S. Government or agencies of the U.S. Government. The Trust Agreement requires that securities underlying repurchase agreements must have a market value at least equal to the cost of the agreement plus accrued interest. The Fidelity U.S. Treasury Income Portfolio Mutual Fund is held by the Authority in accordance with the Credit Enhancement Agreement (see footnote I) and is not guaranteed by the U.S. Government.

D. INVESTMENT IN FACILITIES AND DEPRECIATION:

Net investment in facilities at June 30, 1995 and 1994 is comprised of:

(dollars in thousands)	1995	1994
Facilities completed by operation:		
Airport	$ 913,758	$ 847,336
Bridge	107,262	104,750
Port	299,621	278,207
Investment in facilities	$1,320,641	$1,230,293
Facilities completed by type:		
Land and land improvements	$ 112,120	$ 109,448
Bridge and bridge improvements	102,460	100,239
Buildings	733,868	676,765
Runways and other paving	302,145	277,603
Machinery and equipment	70,048	66,238
	1,320,641	1,230,293
Accumulated depreciation and amortization	(577,878)	(534,141)
	742,763	696,152
Construction in progress	135,302	123,285
Net investment in facilities	$ 878,065	$ 819,437

Estimated useful lives used in the calculation of depreciation are as follows:

Bridge	100 years
Bridge improvements	10 and 25 years
Airport facilities – buildings, runways and other paving	10 and 25 years
Port facilities – buildings and piers	25 years
Machinery and equipment	5 and 10 years

E. PASSENGER FACILITY CHARGES:

In August of 1993, the Authority received approval from the Federal Aviation Administration (FAA) to impose a $3.00 passenger facility charge (PFC) at Logan Airport, effective November 1, 1993. PFC's collected by the Authority are an amount in lieu of Federal grants and can be used for capital projects determined by the FAA to be eligible in accordance with the Aviation Safety and Capacity Expansion Act of 1990. The Authority may collect net PFC's up to $598,800,000 for the period of November 1, 1993 through October 1, 2011. The Authority has received approval from the FAA to use or expend $12 million of PFCs for preliminary design. The Authority must receive subsequent authorization from the FAA to use or expend the remainder of such PFCs. The Authority may leverage the PFC proceeds through bond offerings to the extent necessary to construct eligible projects.

The amount of PFC revenue invested in Port Authority facilities, operations and reserves that is restricted for future PFC project payments is as follows:

(dollars in thousands)	June 30, 1995
Net assets, PFCs	$47,817
PFC funds expended on approved projects	(4,851)
PFCs restricted but not yet expended	$42,966

F. FUNDED DEBT:

The following is a summary of the Authority's funded debt activity for the years ended June 30, 1995 and 1994:

(dollars in thousands)	1995	1994
Funded debt, beginning of year	$552,435	$560,745
New debt issued	71,715	—
Principal paid on funded debt	(11,315)	(8,310)
Bonds Refunded	(72,525)	—
Funded debt, end of year	$540,310	$552,435

Funded debt at June 30, 1995 and 1994 is comprised of the following:

(dollars in thousands)	Weighted Average Interest Rate at June 30, 1995	1995	1994
Revenue Refunding Bonds			
Series 1978	6.8%	$ 17,730	$ 22,895
Series 1985 – A & B	8.7%	—	2,295
Series 1993 – A & B	5.0%	55,645	56,780
Series 1995 – A & B	4.1%	71,715	—
Revenue Bonds			
Series 1988 – A	7.1%	—	2,990
Series 1990 – A	7.1%	19,535	20,695
Series 1992 – A & B	5.3%	23,650	24,955
Term Bonds	7.0%	352,035	421,825
Total Funded Debt		540,310	552,435
Less: Unamortized loss on Refunding		(1,554)	—
Less: Original Issue Discount, net of premium		(8,664)	(9,410)
Total		$530,092	$543,025

Scheduled principal payments on funded debt are as follows:

Fiscal Year *(dollars in thousands)*	Amount
1996	$ 9,270
1997	12,855
1998	13,620
1999	14,470
2000	15,090
Thereafter	475,005
Total	$540,310

F. FUNDED DEBT, CONTINUED:

On April 18, 1995 the Authority issued $19.9 million of Multi-Modal Revenue Refunding Bonds Series A, maturing on July 1, 2015 and $51.8 million of Multi-Modal Revenue Refunding Bonds Series B, maturing on July 1, 2018 (known in the aggregate as the "1995 Bonds").

The proceeds from the 1995 bonds were initially placed in an escrow account. On July 3, 1995 the escrow agent applied the proceeds of the 1995 Bonds to refund the remaining outstanding portion, approximately $72,525,000 of the 1985 and 1988 Bonds.

The 1995 Bonds bear interest from the date of issuance to July 3, 1995 at the fixed rates of between 3.95% and 4.10% per annum, respectively, for the 1995 Series A and Series B Bonds. Thereafter, the 1995 Bonds bore interest at a daily rate in order to, as nearly as practicable, match the floating rate interest received under the 1993 Forward Interest Rate Swap Arrangement (see Footnote I). At the option of the Authority, and upon the satisfaction of certain conditions set forth in the 1995 Bond Resolution, at any time after July 4, 1995, the interest rate on the 1995 Bonds may be converted to a daily rate, weekly rate, variable-term rate, medium-term rate, or a fixed rate.

The refunding of the 1985 and 1988 Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $1.6 million. This difference, reported in the accompanying financial statements as a reduction of bonds payable, is being charged to operations over the life of the 1995 Bonds using the straight line method. As a result of the defeasance, the Authority will reduce its aggregate debt service payments by approximately $15,321,000 and achieve an economic gain (the difference between the present value of the old and new debt service payments) of $9,693,000.

In addition, the Authority incurred approximately $438,000 of costs related to the 1995 Bonds which are being amortized over the life of the 1995 Bonds using the straight line method, and are reported as part of prepayments and other assets in the accompanying financial statements.

In prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with the Trustee for such bonds to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 1995, the following bonds outstanding are considered defeased:

(dollars in thousands)	
1964 Series	$ 25,830
1969 Series	43,120
1971 Series	57,535
1973 Series	79,395
1982 Series	50,525
1985 Series*	67,895
1988 Series*	94,675
Total Defeased Bonds	$418,975

*Refunded on July 3, 1995

G. PENSION COSTS:

In July 1978, the Massachusetts legislature passed legislation which was enacted as Chapter 487 of the Massachusetts Acts of 1978 ("C. 487") and signed into law on July 18, 1978. This act provided for the establishment of the "Massachusetts Port Authority Employees' Retirement System" (the Plan), a contributory retirement system that is separate from the Massachusetts State Employees' Retirement System. Prior to this enactment, Authority employees were members of the state employees' system, and the funding of the pension liability was on a "pay as you go" method. Pursuant to C.487 the employees' rights and benefits under the state plan were transferred to the new system, and the Authority established a separate pension fund. The Plan was established to provide retirement benefits for substantially all employees of the Authority and incidental benefits for their surviving spouses, beneficiaries and contingent annuitants. The Authority funds pension costs based on the actuarially determined annual pension expense which includes current service cost and the amortization, over a 20-year period, of unfunded prior service costs. This annual pension contribution, as actuarially determined, includes a factor for the reimbursement to the Commonwealth for amounts expended by the Commonwealth on account of the Authority's employees retired prior to January 1, 1979.

The Authority's covered payroll for members of the Plan as of the most recent actuarial valuation dates was approximately $44,496,000 as of January 1, 1995. Total payroll for Authority employees was $52,642,000 for the 12 months ended June 30, 1995.

The actuarial cost method utilized to determine contributions to the Plan for the years ended December 31, 1994 and 1993 is the entry age normal-frozen initial liability cost method.

G. PENSION COSTS, CONTINUED:

The more significant actuarial assumptions underlying the actuarial computations for the years ended December 31, 1994 and 1993 are as follows:

Assumed rate of return on investments .... 8.0% per annum compounded annually

Nondisabled life mortality basis .... 1983 Group Annuity Table for males with females set back six years

Withdrawal prior to retirement .... The rates shown at the following sample ages illustrate the withdrawal assumption

Rate of Withdrawal

Age	Group 1 and 2	Group 4
25	9.0%	1.8%
30	5.6	1.7
35	3.2	1.3
45	1.8	.1
50	1.5	N/A
55	N/A	N/A

Salary escalation .... 5.5% per annum for 1995; 6.0% for 1994

Rates of retirement .... Group 1 and 2 employees are assumed to retire at the later of 63 and 10 years of service

Group 4 employees are assumed to retire at the later of age 56 and 10 years of service

Retirement benefits .... 2.3% per year of service for Group 1, 2.5% per year of service for Group 2 and Group 4

Postretirement cost of living increases .... 3% per annum compounded annually on the first $9,000 of pension benefits for 1995 and 4.5% per annum compounded annually on the first $9,000 of pension benefits for 1994

The amount shown below as "pension benefit obligation" (PBO) is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other Public Employee's Retirement Systems Plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan.

G. PENSION COSTS, CONTINUED:

At January 1, 1995, the assets in excess of the PBO were $21,838,000 determined as follows:

(dollars in thousands)	
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	$ 36,833
Current employees:	
Employee financed	$ 29,492
Employer financed-vested	30,082
Employer financed-nonvested	17,826
Total pension benefit obligation	114,233
Net assets available for benefits	136,071
Assets in excess of pension benefit obligation	$ 21,838

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due and fund operating costs of the Plan. The Plan also amortizes the unfunded liability in level amounts over a period of 20 years.

Total contributions to the Plan were $6,463,000 for the Plan year ended December 31, 1994. This includes employee contributions of $3,455,000 which are based upon a percentage of employee base pay (5% for employees hired before December 31, 1974, 7% for employees hired between January 1, 1975 and December 31, 1983 and 8% for employees hired after December 31, 1983 and, effective January 1, 1988, an additional 2% of base pay over $30,000 for those employees hired after December 31, 1978) and employer contributions of $2,975,000 which were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed for the Plan's fiscal year beginning January 1, 1994. Employer contributions consisted of (a) $18,000 normal cost, (b) $2,592,000 amortization of the unfunded actuarial accrued liability and (c) $365,000 funding for operating costs.

G. PENSION COSTS, CONTINUED:

The contributions made by the employees and employer of covered payroll during the last three years are as follows:

Plan Year	Employees	Employer
1992	7.0%	8.0%
1993	7.9%	8.1%
1994	7.8%	6.8%

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed above.

Set forth below is a table listing eight-year historical trend information of the Plan. (Trend information related to plan years 1983 through 1986 is unavailable.)

Plan Year	(1) Net Assets Available for Benefits	(2) PBO	(3) Percentage Funded (1) / (2)	(4) Assets in Excess of PBO (1) – (2)	(5) Annual Covered Payroll	(6) Assets in Excess of PBO as a Percentage of Annual Covered Payroll (4) / (5)
(dollars in thousands)						
1987	$ 47,700	$ 43,661	109%	$ 4,038	$21,268	19%
1988	54,212	50,274	108%	3,938	25,975	15%
1989	63,151	58,914	107%	4,237	25,998	16%
1990	76,687	63,937	120%	12,750	29,397	43%
1991	83,228	72,779	114%	10,449	31,575	33%
1992	114,206	83,800	136%	30,406	40,380	75%
1993	129,796	90,313	144%	39,483	38,476	103%
1994	136,071	114,233	119%	21,838	44,496	49%

Analysis of the dollar amounts of net assets available for benefits, PBO and assets in excess of the PBO, in isolation, can be misleading. Expressing the net assets available for benefits as a percentage of the PBO provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Public Employee Retirement System (PERS). Trends in assets in excess of PBO and annual covered payroll are both affected by inflation. Expressing the assets in excess of PBO as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due.

G. PENSION COSTS, CONTINUED:

For the financial statements prepared in accordance with generally accepted governmental accounting principles, pension expense includes current service cost and amortization of past service costs which were determined as of July 1, 1973, over a 25-year period, commencing in 1974. Total pension expense so determined was $2,491,000 and $2,415,000 for the years ended June 30, 1995 and 1994, respectively.

In addition to providing pension benefits, the Authority provides certain health care benefits for approximately 276 retired employees and/or their survivors through insurance company contracts. The Authority recognizes the cost of providing those benefits by expensing the insurance premiums when paid. This expense was $1,138,000 and $1,036,000 for the years ended June 30, 1995 and 1994, respectively.

H. DEFERRED COMPENSATION:

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Authority (without being restricted to the provisions of benefits under the plan), subject only to the claims of the Authority's general creditors. Participants' rights under the plan are equal to those of general creditors of the Authority in an amount equal to the fair market value of the deferred account for each participant. It is the opinion of the Authority's legal counsel that the Authority has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Authority believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

The market value of the deferred compensation plan assets and the total amount of deferred compensation, including income earned, were approximately $22,850,000 and $17,817,000 at June 30, 1995 and 1994, respectively. These amounts are included in the accompanying balance sheets under the captions "assets whose use is limited" and "accounts payable and accrued expenses."

I. CONTINGENT LIABILITIES AND COMMITMENTS:

CONTRACTUAL OBLIGATIONS FOR CONSTRUCTION:
Contractual obligations for construction were approximately $197,962,000 at June 30, 1995.

FORWARD INTEREST RATE SWAP:
In fiscal 1993, the Authority entered into a forward interest rate swap arrangement in the initial notional amount of $71,715,000 which took effect on July 1, 1995 for the seven-year period ending June 30, 2002, with a portion continuing through December 31, 2002. Under this arrangement, the Authority pays interest at 6.405% per annum and receives interest at a floating rate. On April 19, 1995, the Authority issued its $71,715,000 Multi-Modal Revenue Refunding Bonds, Series 1995-A and Series 1995-B (the "1995 Bonds") and on July 3, 1995, the Authority applied the proceeds of the 1995 Bonds to redeem the remaining 1985 Bonds and 1988 Bonds that were not previously advance refunded with the proceeds of the 1993 Bonds. The 1995 Bonds bear interest at a floating rate in order, as nearly as practicable, to match the floating rate interest received under the swap arrangement.

The Authority does not anticipate any losses over the term of this agreement.

CREDIT ENHANCEMENT AGREEMENT:
During fiscal 1991, the Authority entered into a Credit Enhancement Agreement in connection with an unrelated partnership's bond issuance. The bonds were issued to provide financing to the partnership (the Borrower) for construction, which was completed in fiscal 1993, of a conference center and hotel located at Logan Airport. The credit enhancement agreement represents a guarantee by the Authority to pay bondholders up to $9.7 million, in the event the Borrower does not have sufficient funds (as defined) to meet its debt service requirements.

In the opinion of the Authority's management, no advance against the credit enhancement agreement is anticipated during the next 12 months. However, any such advance, then taking the form of a loan from the Authority to the Borrower, would bear interest at 10%.

THIRD HARBOR TUNNEL:
The Massachusetts Highway Department (MHD) is in the process of extending the eastern terminus of the Massachusetts Turnpike to Logan Airport by constructing a new tunnel under Boston Harbor.

The Third Harbor Tunnel Project (the "Tunnel Project") affects the Authority in a variety of ways. The effects include both required monetary contributions from the Authority and the necessity of eminent domain takings or land acquisitions by the MHD of certain real property in South Boston and Logan Airport to accomodate the construction and operation of the Tunnel Project. On August 9, 1995, legislation was enacted which requires the Authority to contribute a minimum of $100,000,000 to the construction cost of the Tunnel Project and prohibits the Authority from increasing tolls at the Tobin Bridge prior to December 1, 1996 or the submission of a feasibility study, whichever occurs last. Governor Weld vetoed a provision in the legislation that would have established an undefined contribution by the Authority, to be determined in a future study. The Governor has filed legislation amending the August 9, 1995 legislation which would include a requirement that a feasibility study, approved by a majority of the Authority, the Turnpike Authority and the Executive Office of Transportation and Construction, to determine the amount and terms of the Authority's contribution; a requirement that the Authority receive assets commensurate with the value of such contribution; and prohibit any contribution which is inconsistent with the Authority's enabling act or trust agreement, or with applicable federal aviation law. The bill has been passed by the House and referred to the Senate Ways and Means Committee. However, there can be no assurance that such legislation will be enacted as proposed.

On October 3, 1991, the Authority and the MHD entered into a Sale/Mitigation Agreement (the"Agreement") to establish a framework for land aquisitions by the MHD for the Tunnel Project. Specifically, the Agreement provides for acquisitions of Authority land by purchase by the Commonwealth, coupled with mitigation by the Commonwealth of the effects of such acquisitions. Mitigation will include, for example, provision of replacement parking and construction of temporary roadways. In addition, the Agreement provides that the Authority will retain substantial rights in the land acquired by the Commonwealth, including, for example, air and development rights over the below ground surface portions of the Tunnel Project. The Authority expects that the acquisitions will not ultimately result in any material change in its financial position.

SEAPORT BOND BILL:
Both Houses of the Massachusetts Legislature have engrossed legislation which would provide funding by the Commonwealth for the required local match of the cost of dredging the Boston Harbor. The Senate bill, however, would require the Authority to pay twenty-five percent (25%) of the Commonwealth's required match. The Authority's estimate of its costs would be approximately five million dollars ($5,000,000). However, there can be no assurance that the final bill will be enacted or that it will be enacted as engrossed by either the House or Senate.

MITIGATION AGREEMENT:
On June 30, 1993, the Authority entered into a Mitigation Agreement with one municipality and two community organizations which addressed measures to be taken to mitigate environmental impacts of the operation of Logan Airport. At this time, the Authority is unable to estimate the cost of the agreement, because some of the measures are contingent on events and future activity related to the Airport which at this time cannot be estimated reasonably. The enforceability of the Mitigation Agreement, and the specific actions which Massport may be required to take under it, are the subject of a lawsuit by the two community organizations which signed it as set forth in footnote K below. The Authority has organized a mediation among itself, the two groups which signed the Agreement, and six other community organizations which did not sign the Agreement, in order to achieve more unanimity and more specific cost definition.

J. PAYMENTS IN LIEU OF TAXES:

The Enabling Act authorizes and directs the Authority, subject to certain standards and limitations, to enter

into agreements to make annual payments in lieu of taxes to Boston, Chelsea, and Winthrop. In fiscal 1992, the Authority's obligation to Chelsea for annual in lieu of tax payments through 2012 was satisfied by a payment of $5,000,000.

In fiscal 1994, the Authority entered into an extension of and amendment to its agreement with Winthrop which extended the base in lieu of taxes payments through fiscal 1999 and added further components to such payments: a parks/related facilities portion, payable through fiscal 2011, of $150,000, to be adjusted annually based upon the percentage increase in the number of annual air passengers at Logan Airport; and a tree planting portion of $12,500, payable through fiscal 1998. In fiscal 1995, the Authority entered into a comprehensive Amended and Restated Payment-in-Lieu-of-Taxes Agreement with the City of Boston (the "Boston PILOT Agreement"), with a term commencing on March 14, 1995 and ending June 30, 2005. Pursuant to the Boston PILOT Agreement, the Authority will pay to the City the sum of $10,000,000 annually, which payment will be increased by the annual percentage change in the consumer price index, provided that such increase shall be no less than 3%, nor greater than 7%, per year. In the event that the Authority and various community groups enter into a new agreement pursuant to the mediation regarding the Mitigation Agreement (see footnote I above), the annual payment to the City of Boston may be increased by up to $15,000,000, increased annually by the aforesaid index, which sum will be held in trust by the City for the benefit of certain community groups. The Authority's Enabling Act, the Trust Agreement and the Boston PILOT Agreement provide that annual payments under the Boston PILOT Agreement may not exceed the balance of revenues remaining after deposits to the 1978 Debt Service Fund, payment of operating expenses, deposits to the 1990, 1992, 1993 and 1995 Interest and Sinking Funds and deposits to the Maintenance Reserve Fund.

K. LITIGATION:

POTENTIAL LOGAN AIRPORT SOIL AND GROUNDWATER CONTAMINATION:

In April 1991, the Massachusetts Department of Environmental Protection ("DEP") sent the Authority a Notice of Responsibility ("NOR") under M.G.L. c. 21E, Section 5(a) alleging that there have been releases of oil and hazardous materials at Logan Airport and that, as the owner of Logan Airport, the Authority is a "responsible party" liable for the costs of investigating, assessing and remediating soil and groundwater contamination at the Logan Airport site. The Authority has completed its Phase I Limited Site Investigation and its Phase II Comprehensive Site Investigation under the Massachusetts Contingency Plan. The Phase II study indicated that there are a number of geographically discrete areas of contamination at Logan, not a unified, airport-wide problem. DEP agreed with this conclusion, and in March of 1994 issued a revised NOR letter to the Authority that desisgnated thirty separate disposal sites at Logan. DEP also sent NOR letters to a number of Logan tenants concerning contamination at one or more of the Logan sites. The Authority expects that tenants will perform the cleanup at a number of the sites and expects to be able to recoup a substantial portion of the Authority's response costs from third parties who are responsible for the contamination. In the spring and summer of 1994, the Authority sent letters to over thirty current and the former tenants at Logan demanding payment for past and future cleanup costs. Several tenants have already agreed to pay a portion of the Authority's costs or assume responsibility for a portion of the cleanup. It may be necessary for the Authority to initiate litigation against those responsible parties that refuse to either agree to perform remedial work or reimburse the Authority. In addition, the Authority expects to receive some of its cleanup costs from liability insurance carriers who provided coverage to the Authority. Because of the uncertainties in determining the level of cleanup that will be ultimately necessary at many of the Logan sites coupled with the difficulty in predicting the outcome of the Authority's claims against responsible parties and insurance companies, at this time, the Authority cannot reasonably predict the costs it will face to comply with the NOR letter from the Commonwealth of Massachusetts.

MITIGATION AGREEMENT:

The Authority is involved in litigation seeking to enforce a Mitigation Agreement that was signed on June 30, 1993, described in Footnote I above. The Authority is vigorously defending the lawsuit. In June 1995, a judge in the Suffolk County Superior Court declared the Agreement to be valid and enforceable at least in part. The Authority has not been ordered to take any specific actions, and

intends to appeal the declaration of enforceability. A trial is expected to take place in 1996 concerning whether and to what extent the Authority may be compelled to take certain actions described in the Mitigation Agreement. The Mitigation Agreement precludes any award of monetary damages. It is the Authority's judgment that the outcome of this litigation would not cause a material adverse effect on the financial condition of the Authority.

The Authority is also a defendant in a number of legal proceedings arising in the normal course of business. Management, after reviewing all actions and proceedings pending against or involving the Authority with legal counsel, believes that the aggregate liability of loss, if any, resulting from the final outcome of those proceedings will not materially affect the Authority's financial statements.

L. LEASES:

The Authority leases a major portion of its Aviation and Port Properties to various tenants. Most of these operating leases provide for periodic adjustments to rental rates. In addition, certain of the lease agreements contain provisions for contingent payments based on a specified percentage of the tenant's gross revenue. Rental income from contingent payments received under these provisions was approximately $24,630,000 and $24,190,000 for 1995 and 1994, respectively.

Minimum future rental income, excluding contingent rentals, from noncancelable operating leases as of June 30, 1995 are:

Year	Amount
(dollars in thousands)	
1996	$ 22,885
1997	21,329
1998	19,965
1999	16,471
2000	13,897
Thereafter	248,318
Total	$342,865

The following is a schedule by years of future minimum rental payments under noncancelable operating leases as of June 30, 1995:

Year	Amount
(dollars in thousands)	
1996	$ 8,933
1997	7,137
1998	5,242
1999	4,563
2000	4,563
Thereafter	65,784
Total	$ 96,222

M. RELATED PARTY TRANSACTIONS:

On June 30, 1995, the Authority's lease agreement with the Commonwealth for office space at the State Transportation Building expired. The Authority is currently negotiating to extend the lease. However, until a decision has been made to remain at the State Transportation Building or move to a new location, the Authority will continue to remain as a tenant-at-will, and rent will continue at approximately $1,524,000 for the year-ended June 30, 1996.

Gross Revenues, Authority wide	$281.4 million
Net Income	$44.7 million

Logan International Airport, East Boston

Total Passengers	25.2 million
Domestic	21.6 million
International	3.6 million
Total Pounds of Cargo and Mail	898 million

L.G. Hanscom Field, Bedford

Total Operations (Takeoffs/Landings)	193,556

Tobin Memorial Bridge

Total Vehicle Crossings	26.1 million

The Waterfront – Port Industry Facilities

Moran Container Terminal, Charlestown

Container Volume	61,561*
Salt	154, 044 tons

Conley Terminal, South Boston

Container Volume	35,984*
Automobile Processing	11,699

Massachusetts Marine Terminal and Former Navy Recreation Property, South Boston

Automobile Processing	10,110

Army Base, South Boston

Cement handled	85,968 tons

Waterfront Properties Fish Pier, South Boston

Fish Processed, pounds	10 million
Fish Landed, pounds	6 million

Black Falcon Cruise Terminal, South Boston

Total Cruise Passengers (cruise season-1995)	59,627

*includes "Over the Road" volumes.

World Trade Center Boston, South Boston

Exhibition and conference space at Commonwealth Pier leased to private developers.

Constitution Plaza, Charlestown

Multi-purpose office and retail space at Hoosac Pier leased to private developers.

East Boston Shipyard, East Boston

Leased to private entity for ship repair and marine industrial development.

Equal Opportunity for All

In support of the basic principles of the Massachusetts Executive Orders, and in compliance with state and federal laws on affirmative action, Massport is committed to a program of effective affirmative action through institutionalized procedures that ensure equal opportunity in its personnel practices, daily operations and business transactions.

MASSPORT EXECUTIVE OFFICES

State Transportation Building
Ten Park Plaza
Boston, Massachusetts 02116-3971
USA
Tel: (617) 973-5500
Fax: (617) 973-5611

INTERNATIONAL TRADE AND MARKETING REPRESENTATIVES

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Tel: 011 (8620) 888-9238 ext. 3304

Massport Germany
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Berlin D-10587
Germany
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Fax: 011 (49) 030-39902548

Massport Israel
Jewish Convention Center
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91060 Jerusalem
Israel
Tel: 011 972 2 251 194
Fax: 011 972 2 244 578

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Fax: 011 (65) 323-1682

Massport Taiwan
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Taipei, Taiwan, R.O.C.
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MASSACHUSETTS PORT AUTHORITY
massport
INTERNATIONAL

Massport Means Business

1996 ANNUAL REPORT

The Massachusetts Port Authority (Massport) is a world-class independent public authority which develops, promotes and manages airports, the seaport and transportation infrastructure to enable Massachusetts and New England to compete successfully in the global economy. An economic engine for the region and an international gateway to New England, Massport is a responsible corporate citizen, committed to its employees, customers and the public interest.

MESSAGE FROM THE | EXECUTIVE DIRECTOR & CHAIRMAN

This year's annual report does more than lay out what Massport is — Logan International Airport, the Port of Boston, the Tobin Bridge, Hanscom Field — it also tells you what Massport means. For the car dealer in Needham, the innkeeper in Vermont and the factory owner in Canton, Massport means business.

What that recognition drives home is the absolute importance of keeping Massport financially fit and its facilities modern, accessible and efficient. It is not just Massport that suffers should our facilities fall below par and fail to compete. Failure here would have repercussions far beyond our own doors. If Massport fares poorly, it is reflected in the bottom line of the businesses that depend on us to move their people and their products, to bring them customers and to sell their work to other companies around the globe. And when those businesses hurt, it is passed along to the consumer in the form of higher costs.

We recognize the depth of our responsibility. It is why this administration has halted years of stagnation at Logan and in the seaport. We are not content to collect our revenues, run our operations and tread water. The status quo was simply not good enough. We have begun the $1 billion modernization of Logan that will make the airport at home in the 21st Century and give this region the world-class link it deserves to the global economy.

In the Port, we have modernized equipment, won a Harbor Maintenance Tax credit and funding for double-stack rail service and dredging. We have positioned ourselves to compete, and win, in the maritime arena that is both a Boston tradition and an economic necessity.

We have taken the long view and made the hard decisions that will pay off for generations to come, ensuring that the Massachusetts Port Authority fulfills its economic development mission for Massachusetts.

Mark Robinson

Mark E. Robinson
Chairman

Stephen P. Tocco

Stephen P. Tocco
Executive Director
and CEO

Logan is New England's economic dynamo, spinning off thousands of jobs and millions of dollars in profits and tax revenues throughout the region. Logan is connected to virtually every business, large or small, in Boston, Massachusetts and New England. Planes land and depart more than 1,500 times a day bringing 25 million passengers and 870 million pounds of freight to Boston every year. More than 15,000 mostly private sector workers are employed at the airport. More than 100 aviation-related businesses with thousands more employees survive because of the Logan connection. The bottom line? Logan contributes $4.4 billion a year to the regional economy, an infusion of $12 million a day.

For Boston and New England to boom, Logan must be readied to serve the 25 million passengers it handles now, and the 45 million passengers it will see annually by the end of the next decade. Those additional travelers mean additional jobs, profits and tax revenues across the region. They mean growth. If Logan can't handle them, growth will stall and this region will have no place at the global table come the 21st Century.

Building a Better Airport

Massport is moving on its ambitious $1 billion agenda of improvements at Logan. No single project, and no single investment, will pay higher dividends. On this promise, Massport's route development team is already bringing new domestic and international airline service to Logan, including the region's first direct air link to Asia. One crucial example: a modernized international terminal and customs facility will be able to process up to 3,000 passengers from around the globe every hour, allowing them to reach their ultimate destinations quickly and hassle-free.

On the planning agenda for Logan are programs that address noise and air pollution for Logan's neighbors and costly airline delays. Studies are under way on environmentally friendly transportation systems and the development of a commuter runway and new centerfield taxiway.

AT LOGAN 25 MILLION PASSENGERS

870 MILLION POUNDS OF FREIGHT

$4.4 BILLION CONTRIBUTED FROM CONNECTED BUSINESSES

THE AIRPORT OF BOSTON

120,000 USED
WATER TRANSPORTATION SERVICE
TO AND FROM LOGAN

Transferring passengers will be well served by a project — 65 percent complete — connecting Logan's Terminals D and E as well as through proposed renovations to Terminal A. By the end of 1996, permitting and funding for the International Gateway Project will be in place, even as funding is pursued for an airport-wide people mover. A new garage for 5,700 cars and improved walkways between parking and terminal facilities will allow easier access for airline passengers. Further fine tuning of airfield guidance and control, fuel distribution and heating and utility systems will make operations both on the runways and in the terminals as productive as possible. Befitting the nation's, and the world's, high technology birthplace, Logan is moving to the cutting edge. Here, Raytheon will install the first of the nation's new generation radar systems; here, Massachusetts companies are testing the latest and best bomb detection equipment in the world and here, MIT, Massport, the FAA and the private sector are joining up to research and test the computer and navigation systems that will connect Boston to the rest of the globe.

A Transportation Network That Works

Because Massport knows that Logan International Airport is part of a larger transportation network, it has long been an innovator in developing new and improved ways to bring people and goods to the airport. Express bus service from Braintree, Framingham and Woburn provided a stress-free alternative to driving to the airport for over 930,000 passengers this fiscal year. On the water, scheduled shuttles and on-call taxis gave nearly 120,000 people smooth sailing to convenient docking terminals. Logan's new taxi facility dispatched more than 1,500 taxis per day, while high occupancy vehicles enjoyed a dedicated lane from Logan to a Boston-bound tunnel. Plus, less than two miles away, major interstate highway systems — along with the Third Harbor Tunnel — sped people and cargo on their way to the metro-Boston area, New England, the wider U.S. and Canada.

Putting Customers First

Business travelers looking for new markets. Tourists seeing our nation for the first time. Students coming to Boston for college. At Massport, we know they see us first. We're making a good impression. Our Airport Ambassador program rewards workers who smooth the trips for travelers, whether it's through small courtesies, or acts that go beyond the call of duty. Our two Kidport facilities are an unexpected haven for children to work off some of their excess energy before and after boarding flights. Each terminal has a food court offering good food at fair prices, while other options include an award-winning full-menu seafood restaurant and three brewhouse restaurants. New specialty retail news and gift shops, as well as two new duty free shops, are geared towards both browsers and buyers. In addition, a soon-to-be-opened retail mall will feature 15,000 square feet of unique shops and boutiques. All these amenities, plus an Authority-wide policy promoting "nonstop customer service," ensure that customer satisfaction is a top priority.

Hanscom Field Fills the Bill for Local General Aviation

Closely aligned to the economic health of the high technology industry concentrated in Boston's Route 128/95 area, Hanscom Field serves the needs of the general aviation community, including private, business, charter, air taxi and regional/commuter operations. Last year, it generated over $27 million in direct economic benefits and provided employment for 220 people. The more than 20 private companies located at Hanscom pumped close to $10 million into the local economy, while the 127,000 visitors traveling through Hanscom spent $23 million on local transportation, food, lodging, entertainment and other purchases. But Massport means business at Hanscom, and that means an eye toward corporate development, closer ties to local private sector users and research into new facilities. Massport is working closely with the local communities to create reasonable ideas that will improve the financial performance of the airport and continue to provide first-class general aviation services.

LOGAN EXPRESS BUSES PROVIDED DIRECT SERVICE TO AND FROM LOGAN FOR 930,000 TRAVELERS

THE SEAPORT OF BOSTON

AT SEAPORT

1 MILLION TONS OF CARGO

$5 BILLION HANDLED

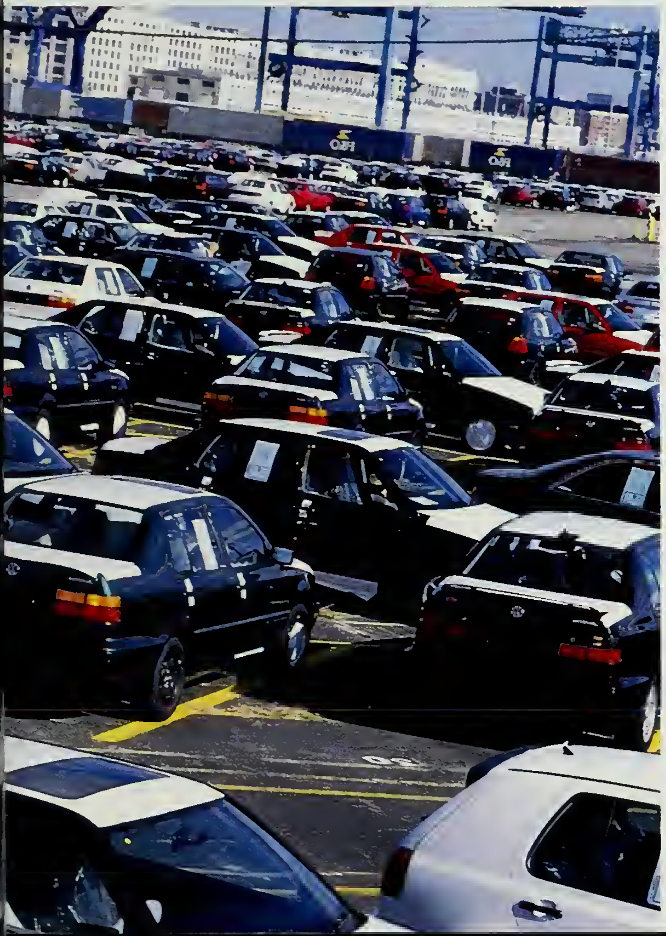
$25 MILLION LOCAL IMPACT

The challenge of bringing 21st century strategic thinking and technology to Boston's centuries-old maritime industry is not for traditionalists or for the short-term investor. Massport is taking the long view, repositioning its holdings and making targeted infrastructure improvements to anticipate and attract future cargo and passenger opportunities. Currently, more than one million tons of high-value general cargo, worth more than $5 billion, is handled at the Port of Boston's maritime terminals. The economic impact of port-related activity to the region is estimated at $2 billion. Upwards of 70,000 passengers cruise out of the Black Falcon Cruise Terminal, a contribution of $25 million to the local economy.

Optimizing Terminal Operations

Constant fluctuations in the maritime industry require careful analysis of the best use of Massport's waterfront properties. A new plan provides a better way to employ a range of resources. Containers will be consolidated and handled at Conley Terminal in South Boston featuring a new ten-lane automated gate system. Automobiles will be processed at the 55-acre Boston Autoport, to be located at the current Moran Terminal/Mystic Pier complex in Charlestown. Dry-bulk commodities will work through the 13-acre Medford Street Terminal in Charlestown, while specialty and military cargos will remain at Moran Terminal. In addition, break-bulk cargo and warehousing will be located at the South Boston Army Base. Finally, Governor William Weld and the Legislature gave the Port a powerful push, and cut potential costs to consumers, when Massachusetts became the first state in the nation to refund to shippers the federal Harbor Maintenance Tax. That change will save some shippers hundreds of thousands of dollars a year and will limit the attraction of Canadian ports.

In short, businesses can expect decreased expenses, increased terminal productivity and lower per-unit costs. Consolidation is only one step. Port access improvements will carry Massport's terminals to the forefront in the coming decade.



ON THE CRUISE MARKET

70,000 PASSENGERS EMBARKED ON CRUISES

SEASON OPENED WITH RECORD 51 SHIPS

$25 MILLION IN LOCAL BUSINESS BENEFITS

Seaport Bond Bill Strengthens Port's Position

Massport's strong support of the Commonwealth's Seaport Bond Bill is expected to produce significant returns for the Port of Boston. The provision of $15 million of the non-federal share for dredging Boston Harbor and $85 million allocated for doublestack rail clearances in Massachusetts ensure critical relief for the local maritime industry. Both provide crucial improvements in access — one by sea, one by land — for New England shippers and the businesses they serve. It is estimated that dredging and doublestack improvements will open the door to a 20 percent increase in general cargo tonnage, 800 additional jobs in port and port-related industries and $63 million in direct and indirect economic impacts.

Cashing In on the Cruise Market

A new front has opened and boomed in the fight to keep Boston o maritime city. The cruise business, all but dead 10 short years ago, now thrives. The 1996 season opened with a record 51 ships, featuring 26 emborkations by Mojesty Cruise Line, worth $25 million to the local businesses ranging from florists to restaurants to hotels. A program to structure a seamless rail/sail package from the Northeast Corridor (Washington-New York-Boston) to Bermuda with Amtrak, renovations to the terminal including new signoge and passenger amenities and specially designed Cruiseport Boston Welcome Kits, have further enhanced the Black Falcon Cruise Terminal's presence and reputation in the cruise marketing arena.

Planning and Development of the Port of the Future

The prosperity of the Port of Boston, as with most modern ports, depends upon the successful integration of diverse waterfront activities. Massport is undertaking action to strengthen traditional maritime industries such as cargo handling, ship repair and seafood processing, while also encouraging the growth of a number of important emerging harborfront uses. Massport's planners are working to accommodate a growing cruise ship and harbor-based tourism industry, an expanding network of passenger water transportation, increased public access and waterfront recreation and a variety of commercial opportunities within the working seaport.

Massport joined with the City of Boston to prepare the Port of Boston Economic Development Plan, establishing harbor-wide development priorities and creating a vision to shape future development of specific waterfront properties. Initiatives include the cooperative development of the new World Trade Center Hotel and garage under construction in South Boston, a new Hilton Hotel at Logan Airport and initiation of Boston By Boat, a ferry linking Boston's premier waterfront attractions.

In addition, Massport recently opened the Exchange Conference Center at the Boston Fish Pier, renovating a deteriorated, historic structure to create a world-class meeting facility that is already attracting new business to Boston.

TRADE AND TOURISM MARKETING | MEANS BUSINESS

The ultimate measure of Massport's business success is whether greater numbers of people and goods travel through its airport and seaport terminals. This requires specialists in worldwide markets to seek out new opportunities, promote usage of Massport's facilities and develop incentives to stimulate new or increased activity. Often difficult to quantify, trade and tourism outreach is ultimately responsible for keeping the regional economy healthy and putting thousands of people to work.

Trade Development Reaps Measurable Returns

The numbers tell the story: Massport's trade development initiatives are building a better business climate. Direct assistance to private sector companies generated over $11 million in material trade, with over $9 million of that reported as moving through Massport's air and sea facilities. In addition, companies participating in Massport-sponsored trade events projected over $35 million in new business and over $17 million in economic impact generated through joint ventures and other activities. Foreign investment through overseas offices led to 68 jobs in Massachusetts while 50 New England companies participated in or were represented in eight overseas trade events and 158 New England companies participated in or were represented in six incoming trade missions. Currently, Massport maintains trade offices and/or representatives in China, Germany, the UK, Mexico, Italy, Israel and Singapore.

Tourism Marketing Puts Us on the Map

Reaching out to international as well as long-distance domestic markets, Massport's tourism marketing efforts promote Massachusetts and New England as a four-season destination, providing a range of activities and attractions for year-round visitors. In addition, Logan International Airport is presented as a gateway to America for international travelers and a gateway to New England for those from domestic locales. Recently developed informational tools include targeted brochures, an industry newsletter and an Internet web site. Results are reflected in increased service, including new weekly Korean Air service, two flights weekly to Dublin via Aer Lingus, three additional weekly Lufthansa flights to Frankfurt, an additional daily American flight to Paris and Icelandair's four weekly flights to Reykjavik.

In Trade

$11 MILLION GENERATED

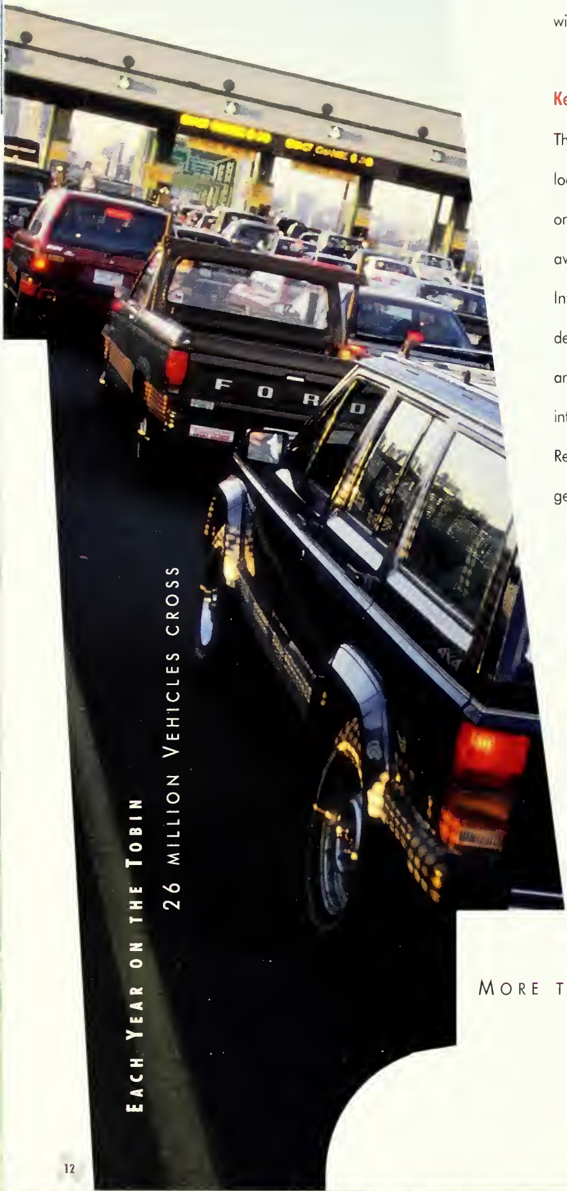
$35 MILLION PROJECTED IN NEW BUSINESS

$17 MILLION IN ECONOMIC IMPACT

More than 36,000 commuters use the Tobin Bridge from communities north of Boston each and every day. The Tobin remains the nation's least expensive toll bridge into a major metropolitan area while providing the City of Boston with a vital economic connection to the suburbs.

Keeping Traffic Safely on Track

The cars and trucks crossing the Tobin Bridge are important to local commerce and Massport is committed to keeping them on the move. Programs are being implemented to increase awareness of alternative routes to and from Logan International Airport, a major and often problematic destination for many drivers. In addition, regular meetings are being held with other transportation agencies to discuss interagency coordination of traffic projections and plans. Regular management meetings with toll personnel are geared towards providing the best customer service possible.



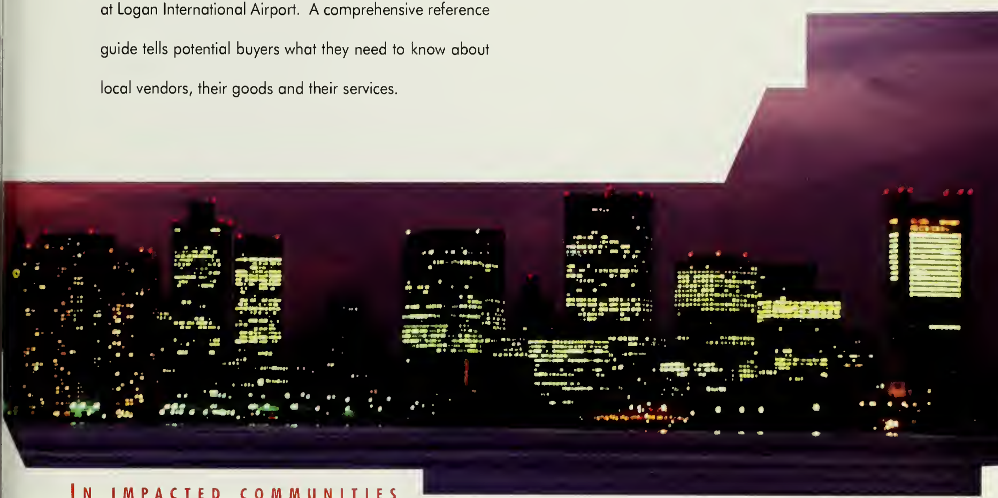
EACH YEAR ON THE TOBIN
26 MILLION VEHICLES CROSS

EACH DAY ON THE TOBIN
MORE THAN 36,000 COMMUTERS CROSS

At Massport, a helping hand means more than a monetary handout. It goes straight to the fundamentals: putting businesspeople together with the opportunities they need to put more people to work, increase their bottom lines and provide a boost to the local economy.

Business owners now are better positioned to bid on and benefit from Massport's many programs, projects and material needs thanks to a series of small business purchasing forums, titled "Logan and Beyond," which provided step-by-step instructions on the Authority's purchasing process. Another initiative — the Local Advantage — takes the process one step further, working to forge more business between local entrepreneurs and the more than 150 tenants at Logan International Airport. A comprehensive reference guide tells potential buyers what they need to know about local vendors, their goods and their services.

A "Taste of Eastie," a comprehensive guide to 40 fine dining, take-out and catering establishments minutes from Logan International Airport, is yet another Massport-assisted effort to connect local restauranteurs directly with strong local markets — in this case, more than 15,000 hungry airport employees! A model program to revitalize Boston's business districts — the Main Street Program — further emphasizes how grassroots involvement can enhance the local economy. A collaborative effort with the East Boston Economic Development Council has led to the development of a distinctive image and the strong promotional materials needed to both retain as well as attract a wide range of vendors to invest in the community.



IN IMPACTED COMMUNITIES

WORKING TO FORGE BUSINESS BETWEEN LOCAL ENTREPRENEURS AND OVER 150 LOGAN TENANTS

MARK E. ROBINSON, CHAIR, is an attorney at the Boston law firm of Bingham, Dana and Gould.

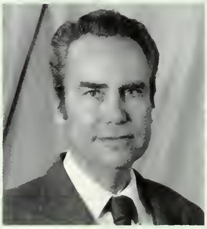
Term expires 2002.

JAMES M. COULL, VICE-CHAIR, is chair of the board of J.M. Coull, Inc./JMC Environmental Systems of Concord, a full-service construction firm.

Term expires 2001.

LUCY A. FLYNN * is senior vice president, marketing and communications for Wang Laboratories in Billerica.

Term expires 2003.



FREDERICK P. SALVUCCI is a principal research associate at MIT's Center for Transportation Studies in Cambridge.

Term expires 1997.

The Massport Board consists of seven members appointed by the Governor of Massachusetts to staggered terms of seven years each. Members serve without compensation.

James H. Carangelo
is president of Business Planning Associates of Lynnfield, an employee benefit and estate planning firm.

Term expires 1999.

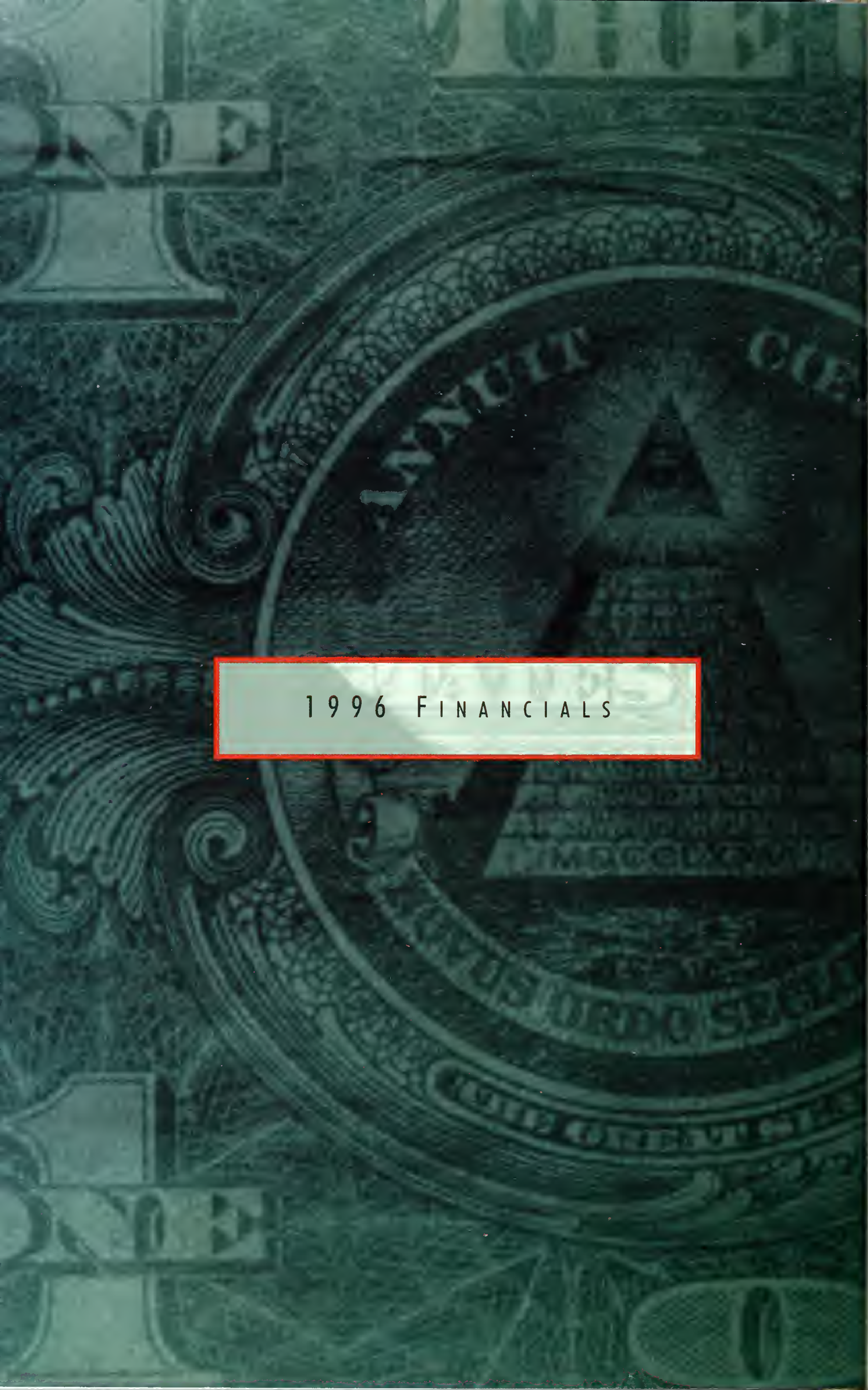
George W. Cashman
is president and chief executive officer of the International Brotherhood of Teamsters, Local #25 in Charlestown.

Term expires 2000.

Paul W. Cronin
is chair of PWC & Associates of Andover, an international consulting firm specializing in development.

Term expires 1998.

* *Lucy A. Flynn replaces Carolyn P. Partan whose term expired in June, 1996.*



1996 Financials

Report of Independent Accountants

To the Members of the Massachusetts Port Authority:

We have audited the accompanying balance sheet of the Massachusetts Port Authority (a public instrumentality of the Commonwealth of Massachusetts) as of June 30, 1996, and the related statements of income, changes in fund equity and cash flows for the year then ended. We previously audited and reported upon the financial statements of the Authority for the year ended June 30, 1995 for which condensed statements are presented for comparison purposes only. These financial statements are the responsibility of the Massachusetts Port Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Port Authority as of June 30, 1996, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Boston, Massachusetts
September 4, 1996

ASSETS	1996			1995
(in thousands)	Port Authority Operations	PFC Program	Combined	Combined
Cash and cash equivalents (Notes A and C)	$ 11,891	$ —	$ 11,891	$ 16,588
Investments (Notes A and C)	13,767	—	13,767	33,713
Accounts receivable, net of allowance for doubtful accounts of $10,241 and $10,082 in 1996 and 1995, respectively	19,710	2,227	21,937	20,166
Accounts receivable - grants (Note A)	6,287	—	6,287	11,721
Prepayments and other assets, net	23,289	—	23,289	20,529
Assets whose use is limited, including cash and cash equivalents of $87,048 and $59,671 in 1996 & 1995, respectively (Notes A, C, E, and H)	255,709	74,440	330,149	286,085
Investment in facilities (Notes A and D):				
Facilities completed	1,434,031	—	1,434,031	1,320,641
Less accumulated depreciation	(625,810)	—	(625,810)	(577,878)
	808,221	—	808,221	742,763
Construction in progress	146,120	7,815	153,935	135,302
Net investment in facilities	954,341	7,815	962,156	878,065
Total Assets	$ 1,284,994	$ 84,482	$ 1,369,476	$ 1,266,867

LIABILITIES AND FUND EQUITY

LIABILITIES				
Accounts payable and accrued expenses (Note H)	$ 63,119	$ 262	$ 63,381	$ 57,545
Accrued compensated absences (Note A)	10,977	—	10,977	9,797
Accrued pension cost (Note G)	1,244	—	1,244	1,813
Accrued interest payable	15,064	—	15,064	15,695
Funded debt (Note F)	572,207	—	572,207	530,092
Deferred income (Note A)	3,869	—	3,869	2,339
Total Liabilities	666,480	262	666,742	617,281
Contingent liabilities and commitments (Notes I, K & L)				
FUND EQUITY (NOTES A AND B)				
Accumulated fund equity	494,994	84,220	579,214	530,285
Contributed capital, grants-in-aid of construction	123,520	—	123,520	119,301
Total Fund Equity	618,514	84,220	702,734	649,586
Total Liabilities and Fund Equity	$ 1,284,994	$ 84,482	$ 1,369,476	$ 1,266,867

The accompanying notes are an integral part of these financial statements.

	1996			1995
(in thousands)	Part Authority Operations	PFC Program	Combined	Combined
Operating Revenues (Note B):				
Tolls, fees and sales of services	$ 141,201	$ —	$ 141,201	$ 139,687
Rentals (Note L)	61,432	—	61,432	58,335
Concessions (Note L)	35,235	—	35,235	30,794
Other	9,285	—	9,285	6,835
Total Operating Revenues	247,153	—	247,153	235,651
Operating Expenses (Note B):				
Operations and maintenance	108,428	—	108,428	102,293
Administration	50,969	—	50,969	44,226
Insurance (Note A)	2,756	—	2,756	2,904
Pension costs (Note G)	2,610	—	2,610	2,491
Payments in lieu of taxes (Note J)	10,236	—	10,236	6,409
Provision for uncollectible accounts	(514)	—	(514)	(800)
Total Operating Expenses	174,485	—	174,485	157,523
Depreciation and amortization, including $6,945 and $6,293 in 1996 and 1995, respectively, on assets acquired with contributed capital, grants-in-aid of construction (Note A and D)	48,534	—	48,534	46,317
Income from Operations	24,134	—	24,134	31,811
Gain/(loss) on sale of equipment	5	—	5	(1,137)
PFC Revenue (Notes A and E)	—	33,159	33,159	31,187
Financial income and expense:				
Income on investments (Note A)	12,789	3,244	16,033	14,540
Interest expense (Notes A and I)	(31,347)	—	(31,347)	(31,736)
Net Income	$ 5,581	$ 36,403	$ 41,984	$ 44,665

The accompanying notes are an integral part of these financial statements.

(in thousands)	Accumulated Fund Equity	PFC Program	Contributed Capital Grants-in-Aid of Construction	Total Fund Equity
BALANCE, JUNE 30, 1994	**$ 464,270**	**$ 15,057**	**$ 107,600**	**$ 586,927**
Net income	11,905	32,760	—	44,665
Contributed capital, grants-in-aid of construction (Note A)	—	—	17,994	17,994
Transfer of depreciation to contributed capital	6,293	—	(6,293)	—
BALANCE, JUNE 30, 1995	**482,468**	**47,817**	**119,301**	**649,586**
Net income	5,581	36,403	—	41,984
Contributed capital, grants-in-aid of construction (Note A)	—	—	11,164	11,164
Transfer of depreciation to contributed capital	6,945	—	(6,945)	—
BALANCE, JUNE 30, 1996	**$ 494,994**	**$ 84,220**	**$ 123,520**	**$ 702,734**

The accompanying notes are an integral part of these financial statements.

(in thousands)	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 247,905	$ 236,577
Cash payments:		
To vendors for goods and services	(97,038)	(91,820)
To employees for services	(65,503)	(59,777)
Payments in lieu of taxes	(10,236)	(6,409)
Net cash provided by operating activities	75,128	78,571
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Grants-in-aid of construction	16,599	10,618
Acquisition and construction of capital assets	(127,172)	(108,264)
Proceeds from sale of bonds	51,000	71,715
Proceeds from sale of equipment	15	34
Principal paid on refunded debt	—	(72,525)
Principal paid on funded debt	(9,270)	(11,315)
Interest paid on funded debt	(34,978)	(38,340)
Payment of refunding cost	—	(2,785)
Proceeds from passenger facility charges	33,194	28,896
Net cash used for capital and related financing activities	(70,612)	(121,966)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,843,145)	(1,786,842)
Proceeds from sale and maturities of investments	1,844,744	1,829,295
Interest earned on investments	16,565	11,417
Net cash provided by investing activities	18,164	53,870
NET INCREASE IN CASH AND CASH EQUIVALENTS	22,680	10,475
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	76,259	65,784
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 98,939	$ 76,259

The accompanying notes are an integral part of these financial statements.

(in thousands)	1996	1995
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	$ 41,984	$ 44,665
Less: income on investments	(16,033)	(14,540)
proceeds from passenger facility charge	(33,159)	(31,187)
Add: interest expense	31,347	31,736
(gain)/loss on sale of equipment	(5)	1,137
	$ 24,134	$ 31,811
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and amortization	48,534	46,317
Provision for uncollectible accounts	(514)	(800)
Change in assets and liabilities		
(Increase)/Decrease in accounts receivable	(1,291)	3,542
Increase in prepayments and other assets	(879)	(4,301)
Increase in accounts payable and accrued expenses	3,003	4,646
Increase in accrued compensated absences	1,180	1,311
Decrease in accrued pension cost	(569)	(537)
Increase/(decrease) in deferred income	1,530	(3,418)
Total adjustments	50,994	46,760
NET CASH PROVIDED BY OPERATING ACTIVITIES:	$ 75,128	$ 78,571
NON-CASH ACTIVITIES UNAMORTIZED LOSS ON REFUNDING:	$ —	$ 1,554

The accompanying notes are an integral part of these financial statements.

The Massachusetts Port Authority (the Authority) is a public instrumentality created by an act of the Legislature (the Enabling Act) of the Commonwealth of Massachusetts (the Commonwealth), effective June 21, 1956. The Authority controls, operates and manages Boston-Logan International Airport (Logan Airport), Hanscom Field, Maurice J. Tobin Memorial Bridge (Tobin Bridge) and other facilities in the Port of Boston. The Authority has no stockholders or equity holders. The provisions of the Enabling Act and the 1978 Trust Agreement (the Trust Agreement) with the Authority's bondholders govern the disposition of cash revenues to the various funds established under the Trust Agreement and restrict the use of such revenues credited to the various funds.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

These financial statements have been prepared in conformity with generally accepted governmental accounting principles.

(1) ASSETS WHOSE USE IS LIMITED
The balance sheet caption, "assets whose use is limited," represents restricted or trusteed assets under the Trust Agreement that are earmarked to fund certain activities of the Authority such as construction of new facilities and debt service. Assets to fund deferred compensation are included under this caption (See Note C).

(2) STATEMENTS OF CASH EQUIVALENTS
For purposes of the statements of cash flows, the Authority considers all highly liquid investments (including assets whose use is limited) with an original maturity of 30 days or less when purchased to be cash equivalents.

(3) INVESTMENTS
Investments in U.S. Government securities are recorded at amortized cost, which approximates market value including accrued interest. Investments in repurchase agreements are recorded at cost including accrued interest.

(4) SELF-INSURANCE
The Authority, as mandated by the Trust Agreement, maintains a self-insurance account within the operating fund. The Authority is self-insured for certain major catastrophic risks and worker's compensation claims, but maintains insurance coverage for claims in excess of established limits. Investments used to fund self-insurance claims are included within "assets whose use is limited" in the accompanying balance sheets. (See Notes C and K).

(5) INVESTMENT IN FACILITIES
Facilities are carried at cost and include the expenditure of federal grants-in-aid of construction and the cost of significant renewals and betterments. Federal grants-in-aid of construction are recorded as contributed capital as earned and amortized on the straight-line method over the service lives of the related assets. Expenditures for repairs and maintenance are charged to expense as incurred.

(6) DEPRECIATION
Depreciation is provided on the straight-line method based on estimated useful service lives of the related assets beginning in the fiscal year of acquisition or upon completion of construction. Depreciation is computed on facilities which are recorded in the accounts of the Authority, including those financed by grants-in-aid of construction.

(7) INTEREST CAPITALIZATION
The Authority capitalizes certain interest associated with the cost of restricted tax-exempt borrowings, less any interest earned on temporary investment of the proceeds of those borrowings during the period of construction. Interest expense of $2,999,000 and $3,954,000 reduced by interest income of $882,000 and $1,929,000 for the years ended June 30, 1996 and 1995, respectively, has been capitalized as a part of the cost of construction projects.

(8) ACCOUNTING FOR COMPENSATED ABSENCES
The Authority accrues for vacation and sick pay when it is earned. The liability for vested vacation and sick pay is reflected in the accompanying balance sheets under the caption "accrued compensated absences."

(9) DEFERRED INCOME
Deferred income includes amounts received from the Commonwealth for the temporary takings of certain properties at Logan Airport for fiscal years 1996 and 1995.

(10) PASSENGER FACILITY CHARGES
Revenues derived from the collection of passenger facility charges (PFCs) are recognized and reported as non-operating revenue by the Authority.

B. Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the Trust Agreement:

The provisions of the Enabling Act and the Trust Agreement with State Street Bank and Trust Company, as trustee for the benefit of the Authority's bondholders prescribe certain accounting practices to be followed in maintaining the accounts and records of the Authority.

Under the Trust Agreement, monthly cash revenues of the Authority, after providing for required debt service costs on the Revenue Refunding Bonds, Series 1978, from pledged revenues, are transferred to the Operating Fund. After providing for operating expenses, including pension expense and transfers to the self-insurance account, cash revenues are then transferred to the Interest and Sinking Fund (which are applied to debt service on any outstanding bonds other than the Revenue Refunding Bonds, Series 1978), the Maintenance Reserve Fund, the Payment In Lieu of Taxes Fund and the Improvement and Extension Fund. Cash and investments held in the Improvement and Extension Fund, to the extent designated by the Authority, are transferred to the Capital Budget Account.

Under the provisions of the Trust Agreement, all revenues derived from operation of the Tobin Bridge, all aircraft landing fees and motor vehicle parking fees, derived from the operations of the airport properties, and all income from investments held in all funds with the exception of the Construction Funds, Port Properties Fund and self-insurance account are pledged for the debt service requirements of the Revenue Refunding Bonds, Series 1978.

To the extent that pledged revenues exceed debt service requirements, they are available to meet operating expenses and for transfer to other funds. To the extent unexpended, these amounts continue to be available for the debt service requirements in any year.

B. REVENUES AND OPERATING EXPENSES AS DETERMINED BY ACCOUNTING PRACTICES PRESCRIBED BY THE TRUST AGREEMENT, CONTINUED:

Presented below ore the 1996 and summory 1995 revenues and operating expenses as determined in accordonce with the Trust Agreement and a reconciliotian ta net income as presented in the accompanying Statements of Income under generolly accepted gavernmental accaunting principles (GAGAP). (Far Trust accaunting purposes, the pravision far uncallectible accaunts is netted within the revenues caption.)

(in thousands)	Bridge	Airport Properties	Port Properties Maritime	Port Properties Development*	Income on Investments	1996 Total	1995 Total
Revenues, Net:							
1978 Pledged Revenues	$ 6,118	$ 101,249	$ —	$ —	$ 11,649	$ 119,016	$ 113,598
Nan-Pledged Revenues	—	111,309	23,033	5,958	—	140,300	134,818
Passenger Facility Charge (Nate E)	—	33,159	—	—	3,244	36,403	32,760
Total	6,118	245,717	23,033	5,958	14,893	295,719	281,176
Operoting Expenses:							
Operatians and Maintenance	4,269	81,326	20,003	2,817	—	108,415	102,293
Administration	2,416	37,933	7,286	3,334	—	50,969	44,226
Insurance	368	1,950	666	272	—	3,256	3,111
Pension (Nate G)	194	2,473	400	112	—	3,179	3,028
Total	7,247	123,682	28,355	6,535	—	165,819	152,658
Excess (Deficit) of Revenues Over Operating Expenses Under Trust Agreement	(1,129)	122,035	(5,322)	(577)	14,893	129,900	128,518
Add: Self Insurance Cast (1)	—	410	59	31	—	500	207
Pensian Adjustment (1)	26	438	84	21	—	569	537
Self Insuronce Income an Investments (3)	—	—	—	—	1,140	1,140	1,002
Less: Payments In Lieu of Taxes (4)	(451)	(8,103)	(1,217)	(465)	—	(10,236)	(6,409)
Difference on Sale of Equipment(2)	—	—	5	—	—	5	(1,137)
Other (4)	—	(13)	—	—	—	(13)	—
Interest Expense (4)	(3,983)	(20,628)	(5,554)	(1,182)	—	(31,347)	(31,736)
Depreciatian and Amortizatian (4)	(3,095)	(33,249)	(7,816)	(4,374)	—	(48,534)	(46,317)
Net Income (Loss)	$ (8,632)	$ 60,890	$(19,761)	$ (6,546)	$ 16,033	$ 41,984	$ 44,665

* Development includes activities related to the Authority's alternotive use program, principolly the Commonwealth, Fish and Hoosoc Piers.

(1) Expensed under Trust Agreement, nat an expense under GAGAP.
(2) Equipment is depreciated under GAGAP but nat under Trust Agreement.
(3) Nat revenue under Trust Agreement, revenue under GAGAP.
(4) Nat an aperating expense under Trust Agreement, expensed under GAGAP.

C. CASH, CASH EQUIVALENTS AND INVESTMENTS:

The following summarizes the Authority's cash, cash equivalents and investments at June 30, 1996 by the various funds and accounts established under the Trust Agreement with the Authority's bondholders. Summary 1995 information is also presented. (Assets designated for credit enhancement and deferred compensation are also included.)

(in thousands) Use defined for specific purposes:	Cash and cash Equivalents	Investments	Assets whose use is limited Cash, Cash Equivalents & Investments	1996 Total	1995 Total
1978 Debt Service Fund	$ —	$ —	$ 40,781	$ 40,781	$ 41,655
Operating Fund	5,466	—	—	5,466	3,367
Self-insurance Account	—	—	20,301	20,301	18,687
Maintenance Reserve	—	—	42,347	42,347	47,663
Payments In Lieu of Taxes	—	—	9,220	9,220	3,577
Capital Budget	—	—	13,448	13,448	35,204
Improvement and Extension Fund	6,425	13,767	—	20,192	46,934
1985 Interest and Sinking Fund *	—	—	—	—	3,774
1988 Interest and Sinking Fund *	—	—	—	—	4,118
1990 Interest and Sinking Fund	—	—	12,558	12,558	12,275
1992 Interest and Sinking Fund	—	—	10,938	10,938	9,544
1992 Construction Fund	—	—	5,094	5,094	22,400
1993 Interest and Sinking Fund	—	—	13,975	13,975	8,900
1993 Project Fund	—	—	23	23	27
1995 Interest and Sinking Fund	—	—	9,039	9,039	4,682
1995 Project Fund	—	—	80	80	340
1996 Project Account	—	—	47,217	47,217	—
Credit Enhancement Account (Note I)	—	—	9,846	9,846	9,684
PFC Accounts	—	—	74,440	74,440	40,705
Subtotal	11,891	13,767	309,307	334,965	313,536
Deferred Compensation (Note H)	—	—	20,842	20,842	22,850
Total	$ 11,891	$ 13,767	$ 330,149	$ 355,807	$ 336,386

The carrying amount of the Authority's cash deposits was $3,342,000 and $2,010,000 at June 30, 1996 and 1995, respectively. The bank balance was $4,688,000 and $6,156,000 at June 30, 1996 and 1995, respectively. The nature of the reconciling items between the book and bank balance consisted primarily of outstanding checks which had not cleared the bank at year-end. The bank balance was fully collateralized as of June 30, 1996 and 1995.

* 1985 and 1988 Bonds refunded in full on July 3, 1995

C. CASH, CASH EQUIVALENTS AND INVESTMENTS, CONTINUED:

The following summarizes the Authority's cash and cash equivalents and investments by type held at June 30, 1996, excluding cash and investments held for purposes of deferred compensation ($20,842,000 and $22,850,000 at June 30, 1996 and 1995 respectively, see note H). Summary 1995 information is also presented.

(in thousands)	Carrying Amount	Market Value
Certificates of Deposit	$ 100	$ 100
Repurchase Agreements	20,689	20,689
U.S. Government Securities:		
Treasury Notes	85,122	85,214
Treasury Bills	9,739	9,707
Federal Farm Credit (FFC)	21,678	21,678
Federal National Mortgage Association (FNMA)	51,769	51,758
Federal Home Loan Bank (FHLB)	64,149	64,163
Federal Home Loan Mortgage Corp. (FHLMC)	77,321	77,314
Total U.S. Government & Agency Securities	309,778	309,834
Fidelity U.S. Treasury Income Portfolio Mutual Fund	1,056	1,052
Total investments	331,623	331,675
Cash in bank	3,342	3,342
Total at June 30, 1996	$ 334,965	$ 335,017
Total at June 30, 1995	$ 313,536	$ 314,658

The Authority is authorized by the Trust Agreement to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, in bonds or notes of public agencies or municipalities, in bank time deposits and in repurchase agreements. All investments are held on behalf of the Authority by the Authority's trustee and custodian.

The Certificates of Deposit are fully insured by the Federal Deposit Insurance Corporation. Repurchase agreements are collaterized by obligations of the U.S. Government or agencies of the U.S. Government. The Trust Agreement requires that securities underlying repurchase agreements must have a market value at least equal to the cost of the agreement plus accrued interest. The Fidelity U.S. Treasury Income Portfolio Mutual Fund is held by the Authority in accordance with the Credit Enhancement Agreement (see footnote I) and is not guaranteed by the U.S. Government.

D. INVESTMENT IN FACILITIES AND DEPRECIATION:

Net investment in facilities at June 30, 1996 and 1995 is comprised of:

(in thousands)	1996	1995
Facilities completed by operation:		
Airport	$ 971,486	$ 913,758
Bridge	111,647	107,262
Port	350,898	299,621
Investment in facilities	$ 1,434,031	$ 1,320,641
Facilities completed by type:		
Land and land improvements	$ 112,721	$ 112,120
Bridge and bridge improvements	106,652	102,460
Buildings	829,047	733,868
Runways and other paving	308,136	302,145
Machinery and equipment	77,475	70,048
	1,434,031	1,320,641
Accumulated depreciation and amortization	(625,810)	(577,878)
	808,221	742,763
Construction in progress	153,935	135,302
Net investment in facilities	$962,156	$ 878,065

Estimated useful lives used in the calculation of depreciation are as follows:

Bridge	100 years
Bridge improvements	10 and 25 years
Airport facilities - buildings, runways and other paving	10 and 25 years
Port facilities - buildings and piers	25 years
Machinery and equipment	5 and 10 years

E. PASSENGER FACILITY CHARGES:

In August of 1993, the Authority received approval from the Federal Aviation Administration (FAA) to impose a $3.00 passenger facility charge (PFC) at Logan Airport, effective November 1, 1993. PFCs collected by the Authority are an amount in lieu of Federal grants and can be used for capital projects determined by the FAA to be eligible in accordance with the Aviation Safety and Capacity Expansion Act of 1990. The Authority may collect net PFCs up to $598,800,000 for the period of November 1, 1993 through October 1, 2011. The Authority has received approval from the FAA to use or expend $12 million of PFCs for preliminary design. The Authority must receive subsequent authorization from the FAA to use or expend the remainder of such PFCs.

In June 1996 the Authority submitted an application to the FAA for approval to defer submitting the application to use PFC funds for modification of the International Gateway at Logan Airport until June 1998. In September 1996, the Authority expects to submit an application to use (or spend) PFCs for soundproofing, the circulating roadways, and Terminal E modification, and an application to impose and use PFCs for the walkways. Assuming that the document is determined to be complete, the record of decision granting the approval to use PFCs would be issued in 120 days, or by the end of January 1997.

The amount of PFC revenue invested in Port Authority facilities, operations and reserves that are restricted for future PFC project payments is as follows:

(In thousands)	1996
Total assets, PFCs	$ 84,482
PFC funds expended on approved projects	(7,815)
PFCs restricted but not yet expended	$ 76,667

F. FUNDED DEBT:

The following is a summary of the Authority's funded debt activity for the years ended June 30, 1996 and 1995:

(in thousands)	1996	1995
Funded debt, beginning of year	$ 540,310	$ 552,435
New debt issued	51,000	71,715
Principal paid on funded debt	(9,270)	(11,315)
Bonds refunded	—	(72,525)
Funded debt, end of year	$ 582,040	$ 540,310

Funded debt at June 30, 1996 and 1995 is comprised of the following:

(in thousands)	Weighted Average Interest Rate at June 30, 1996	1996	1995
Revenue Refunding Bonds			
Series 1978	6.9%	$ 12,210	$ 17,730
Series 1993 - A & B	5.1%	54,475	55,645
Series 1995 - A & B	4.1%	71,715	71,715
Revenue Bonds			
Series 1990 - A	7.1%	18,300	19,535
Series 1992 - A & B	5.4%	22,305	23,650
Term Revenue Bonds	6.7%	352,035	352,035
Commercial Paper	3.6%	51,000	—
Total Funded Debt		582,040	540,310
Less: Unamortized loss on refunding		(1,485)	(1,554)
Less: Original issue discount, net of premium		(8,348)	(8,664)
Total		$ 572,207	$ 530,092

Scheduled principal payments on funded debt are as follows:

Fiscal Year *(in thousands)*	Amount
1997	$ 63,855
1998	13,620
1999	14,470
2000	15,090
2001	16,055
Thereafter	458,950
Total	$ 582,040

F. FUNDED DEBT, CONTINUED:

In June, 1996 the Authority sold $51,000,000 of commercial paper. The commercial paper is backed by a direct pay letter of credit issued by Canadian Imperial Bank of Commerce. The $51,000,000 will be used to finance roadway and garage construction at Logan Airport as part of the Logan 2000 program. The proceeds have been invested in a guaranteed investment contract. The Authority expects that the commercial paper program will be refunded with non-AMT revenue bonds issued before June 30, 1997.

On April 18, 1995 the Authority issued $19.9 million of Multi-Model Revenue Refunding Bonds Series A, maturing on July 1, 2015 and $51.8 million of Multi-Model Revenue Refunding Bonds Series B, maturing on July 1, 2018 (known in the aggregate as the "1995 Bonds"). The proceeds from the 1995 bonds were initially placed in an escrow account. On July 3, 1995 the escrow agent applied the proceeds of the 1995 Bonds to refund the remaining outstanding portion, approximately $72,525,000 of the 1985 and 1988 Bonds.

In prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with the Trustee for such bonds to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 1996, the following bonds outstanding are considered defeased:

(in thousands)

1964 Series	$ 23,670
1969 Series	41,450
1971 Series	56,280
1973 Series	77,250
1982 Series	49,815
Total Defeased Bonds	$ 248,465

G. PENSION COSTS:

In July 1978, the Massachusetts legislature passed legislation which was enacted as Chapter 487 of the Massachusetts Acts of 1978 ("C. 487") and signed into law on July 18, 1978. This act provided for the establishment of the "Massachusetts Port Authority Employees' Retirement System" (the Plan), a contributory retirement system that is separate from the Massachusetts State Employees' Retirement System. Prior to this enactment, Authority employees were members of the state employees' system, and the funding of the pension liability was on a "pay as you go" method. Pursuant to C.487 the employees' rights and benefits under the state plan were transferred to the new system, and the Authority established a separate pension fund. The Plan was established to provide retirement benefits for substantially all employees of the Authority and incidental benefits for their surviving spouses, beneficiaries and contingent annuitants. The Authority funds pension costs based on the actuarially determined annual pension expense which includes current service cost and the amortization, over a 20-year period, of unfunded prior service costs. This annual pension contribution, as actuarially determined, includes a factor for the reimbursement to the Commonwealth for amounts expended by the Commonwealth on account of the Authority's employees retired prior to January 1, 1979.

The Authority's covered payroll for members of the Plan as of the most recent actuarial valuation dates was approximately $49,193,000 as of January 1, 1996. Total payroll for Authority employees was $59,896,000 for the 12 months ended June 30, 1996.

The actuarial cost method utilized to determine contributions to the Plan for the years ended December 31, 1995 and 1994 is the entry age normal-frozen initial liability cost method.

G. Pension Costs, continued:

The more significant actuarial assumptions underlying the actuarial computations for the years ended December 31, 1995 and 1994 are as follows:

Assumed rate of return on investments	8.0% per annum compounded annually
Nondisabled life mortality basis	1983 Group Annuity basis Table for males with females set back six years
Withdrawal prior to retirement	The rates shown at the following sample ages illustrate the withdrawal assumption

Rate of Withdrawal

Age	Group 1 and 2	Group 4
25	9.0%	1.8%
30	5.6%	1.7%
35	3.2%	1.3%
45	1.8%	.1%
50	1.5%	N/A
55	N/A	N/A

Salary escalation	5.5% per annum
Rates of retirement	Group 1 and 2 employees are assumed to retire at the later of 63 and 10 years of service Group 4 employees are assumed to retire at the later of age 56 and 10 years of service
Retirement benefits	2.3% per year of service for Group 1, 2.5% per year of service for Group 2 and Group 4
Postretirement cost of living increases	3% per annum compounded annually on the first $9,000 of pension benefits for 1995 and 1994

The amount shown below as "pension benefit obligation" (PBO) is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other Public Employee's Retirement Systems Plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan.

G. PENSION COSTS, CONTINUED:

At January 1, 1996, the assets in excess of the PBO were $36,601,000 determined as follows:

	(in thousands)
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits, inactive members and terminated employees entitled to benefits but not yet receiving them, including anticipated cost of living adjustments not yet granted by the Commonwealth's legislature	$ 37,345
Current employees:	
Employee financed	33,199
Employer financed-vested	35,842
Employer financed-nonvested	18,542
Total pension benefit obligation	124,928
Net assets available for benefits	161,529
Assets in excess of pension benefit obligation	$ 36,601

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due and fund operating costs of the Plan. The Plan also amortizes the unfunded liability in level amounts over a period of 20 years.

Total contributions to the Plan were $6,926,301 for the Plan year ended December 31, 1995. This includes employee contributions of $3,822,601 which are based upon a percentage of employee base pay (5% for employees hired before December 31, 1974, 7% for employees hired between January 1, 1975 and December 31, 1983 and 8% for employees hired after December 31, 1983 and, effective January 1, 1988, an additional 2% of base pay over $30,000 for those employees hired after December 31, 1978) and employer contributions of $3,103,700 which were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed for the Plan's fiscal year beginning January 1, 1995. Employer contributions consisted of (a) $904,649 normal cost, (b) $1,789,051 amortization of the unfunded actuarial accrued liability and (c) $410,000 funding for operating costs.

G. PENSION COSTS, CONTINUED:

The contributions made by the employees and employer of covered payroll during the last three years are as follows:

Plan Year	Employees	Employer
1993	7.9%	8.1%
1994	7.8%	6.8%
1995	7.8%	6.3%

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed above.

Set forth below is a table listing nine-year historical trend information of the Plan. (Trend information related to plan years 1983 through 1986 is unavailable.)

Plan Year	(1) Net Assets Available for Benefits	(2) PBO	(3) Percentage Funded (1)/(2)	(4) Assets in Excess of of PBO (1)-(2)	(5) Annual Covered Payroll	(6) Assets in Excess of PBO as a Percentage of Annual Covered Payroll (4)/(5)
(in thousands)						
1987	$ 47,700	$ 43,661	109%	$ 4,039	$ 21,268	19%
1988	54,212	50,274	108%	3,938	25,975	15%
1989	63,151	58,914	107%	4,237	25,998	16%
1990	76,687	63,937	120%	12,750	29,397	43%
1991	83,228	72,779	114%	10,449	31,575	33%
1992	114,206	83,800	136%	30,406	40,380	75%
1993	129,796	90,313	144%	39,483	38,476	103%
1994	136,071	114,233	119%	21,838	44,496	49%
1995	161,529	124,928	129%	36,601	49,193	74%

Analysis of the dollar amounts of net assets available for benefits, PBO and assets in excess of the PBO, in isolation, can be misleading. Expressing the net assets available for benefits as a percentage of the PBO provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Public Employee Retirement System (PERS). Trends in assets in excess of PBO and annual covered payroll are both affected by inflation. Expressing the assets in excess of PBO as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due.

G. PENSION COSTS, CONTINUED:

For the financial statements prepared in accordance with generally accepted governmental accounting principles, pension expense includes current service cost and amortization of post service costs which were determined as of July 1, 1973, over a 25-year period, commencing in 1974. Total pension expense so determined was $2,610,000 and $2,491,000 for the years ended June 30, 1996 and 1995, respectively.

In addition to providing pension benefits, the Authority provides certain health care benefits for approximately 276 retired employees and/or their survivors through insurance company contracts. The Authority recognizes the cost of providing those benefits by expensing the insurance premiums when paid. This expense was $1,219,000 and $1,138,000 for the years ended June 30, 1996 and 1995, respectively.

H. DEFERRED COMPENSATION:

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Authority (without being restricted to the provisions of benefits under the plan), subject only to the claims of the Authority's general creditors. Participants' rights under the plan are equal to those of general creditors of the Authority in an amount equal to the fair market value of the deferred account for each participant. It is the opinion of the Authority's legal counsel that the Authority has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Authority believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

The market value of the deferred compensation plan assets and the total amount of deferred compensation, including income earned, were approximately $20,842,000 and $22,850,000 at June 30, 1996 and 1995, respectively. These amounts are included in the accompanying balance sheets under the captions "assets whose use is limited" and "accounts payable and accrued expenses."

I. CONTINGENT LIABILITIES AND COMMITMENTS:

CONTRACTUAL OBLIGATIONS FOR CONSTRUCTION:
Contractual obligations for construction were approximately $160,306,000 at June 30, 1996.

FORWARD INTEREST RATE SWAP:
In fiscal 1993, the Authority entered into a forward interest rate swap arrangement in the initial notional amount of $71,715,000 which took effect on July 1, 1995 for the seven-year period ending June 30, 2002, with a portion continuing through December 31, 2002. Under this arrangement, the Authority pays interest at 6.405% per annum and receives interest at a floating rate. On April 19, 1995, the Authority issued its $71,715,000 Multi-Modal Revenue Refunding Bonds, Series 1995-A and Series 1995-B (the "1995 Bonds") and on July 3, 1995, the Authority applied the proceeds of the 1995 Bonds to redeem the remaining 1985 Bonds and 1988 Bonds that were not previously advance refunded with the proceeds of the 1993 Bonds. The 1995 Bonds bear interest at a floating rate in order, as nearly as practicable, to match the floating rate interest received under the swap arrangement.

The Authority does not anticipate any losses over the term of this agreement.

CREDIT ENHANCEMENT AGREEMENT:
During fiscal 1991, the Authority entered into a Credit Enhancement Agreement in connection with an unrelated partnership's bond issuance. The bonds were issued to provide financing to the partnership (the Borrower) for construction, which was completed in fiscal 1993, of a conference center and hotel located at Logan Airport. The Credit Enhancement Agreement represents a guarantee by the Authority to pay bondholders up to $9.6 million, in the event the Borrower does not have sufficient funds (as defined) to meet its debt service requirements.

In the opinion of the Authority's management, no advance against the credit enhancement agreement is anticipated during the next 12 months. However, any such advance, then taking the form of a loan from the Authority to the Borrower, would bear interest at 10%.

I. CONTINGENT LIABILITIES AND COMMITMENTS, CONTINUED:

THIRD HARBOR TUNNEL:

The Massachusetts Highway Department (MHD) is in the process of extending the eastern terminus of the Massachusetts Turnpike to Logan Airport by constructing a new tunnel under Boston Harbor (the "Tunnel Project", defined as the Third Harbor Tunnel in 1995 Mass. Acts Chapter 102, 9(j)). This tunnel opened in December 1995.

The Tunnel Project affects the Authority in a variety of ways. The effects include both required payments from the Authority in return for assets of commensurate value and the necessity of eminent domain takings or land acquisitions by the MHD of certain real property in South Boston and Logan Airport to accommodate the construction and operation of the Tunnel Project. On August 10, 1995, legislation (the "Tunnel Legislation") was enacted which requires the Authority to pay a minimum of $100 million toward the cost of the Tunnel Project and prohibits the Authority from increasing tolls at the Tobin Bridge prior to December 1, 1996 or the submission of a feasibility study, whichever occurs last. Governor Weld vetoed a provision in the Tunnel Legislation that would have established an undefined payment by the Authority, to be determined in a future study. In November, 1995, an amendment (the "Amendment") to the Tunnel Legislation was enacted which includes a requirement that a feasibility study be prepared to determine, among other things, the amount and terms of the Authority's payment towards the cost of the Tunnel Project. The Amendment requires that the Authority make a payment which shall be, at a minimum, the $100 million noted above (the "Capital Payment"). In addition, the Amendment requires an annual payment from the Authority to the Turnpike Authority for the maintenance, operation and repair of the Tunnel Project, the amount of which will be established in the above noted feasibility study. Each of the Authority, Turnpike Authority and the Executive Office of Transportation and Construction are full participants in those portions of the feasibility study which affect the Authority, and the agreement of a majority of such participants is required prior to submission of such portions of the study. The Amendment also requires that the Authority receive assets commensurate with the value of the Capital Payment and any payment required from the Authority must be consistent with the Authority's enabling act, trust agreement, and with applicable federal aviation law. A final feasibility study is being required to be submitted to the General Court and the Governor by December 1, 1996. There is no assurance as to the results of the final feasibility study nor the action, if any, that the Legislature will take in response to said feasibility study.

The MHD submitted in February 1996 a finance plan (the "February 1996 Finance Plan") to the Federal Highway Administration, which included nine potential scenarios. The February 1996 Financing Plan identified as most likely, a scenario showing an estimated payment by the Authority of $200 million. The Tunnel Project is large and complex, and there can be no assurance that the final Finance Plan will propose any of the scenarios set forth by the MHD. The assets to be transferred to the Authority in exchange for the Authority's payment have not been identified but are anticipated to include roadways at the Airport which would become a part of the Airport properties. In the opinion of the Authority's management, said assets to be transferred to the Authority will be commensurate with the value of the Authority's payment as required by the Amendment.

On October 3, 1991, the Authority and the MHD entered into a Sale/Mitigation Agreement (the Agreement") to establish a framework for land acquisitions by the MHD for the Tunnel Project. Specifically, the Agreement provides for acquisitions of Authority land by purchase by the Commonwealth, coupled with mitigation by the Commonwealth of the effects of such acquisitions. Mitigation will include, for example, provision of replacement parking and construction of temporary roadways. In addition, the Agreement provides that the Authority will retain substantial rights with respect to the land acquired by the Commonwealth, including, for example, air and development rights over the below ground and surface portions of the Tunnel Project. The Authority expects that the acquisitions will not ultimately result in any material change in its financial position.

SEAPORT BOND BILL:

The Seaport Bond Bill was enacted on February 14, 1996 and provides authorization for funding by the Commonwealth of $15 million towards the non-federal share of the cost of completing the Boston Harbor Navigation Improvement Project, including without limitation: the cost of dredging the Authority's deep cargo berths; all costs associated with the preparation of the environmental studies and reports; and the costs related to the design and relocation of the MWRA pipeline in the Chelsea Creek. The Bond Bill requires the Authority to pay twenty-five percent (25%) of the non-federally funded costs of the Project. The Authority's estimate of the total future costs of the permitted activities is approximately $8 million. A second provision of the Seaport Bond Bill will provide a mechanism for funding improvements to the Massachusetts rail transportation network allowing rail shipment of double stack cargo from the Allston yards in Boston to points west, which is anticipated to encourage expanded container shipments through the Port of Boston. The statute requires that the Authority provide up to fifty percent (50%) of the cost of improvements to the rail line from Framingham to the Allston yard in Boston permitting double stack shipments, at an estimated cost to the Authority of approximately $25 million. Expenditure of funds will not occur until the execution of a Master Agreement, as defined by the statute, between the Commonwealth and theparticipating railroads.

MITIGATION AGREEMENT:

On June 30, 1993 the Authority entered into a Mitigation Agreement with one municipality and two community organizations which addressed measures to be taken to mitigate environmental impacts of the operation of Logan Airport. At this time, the Authority is unable to estimate the cost of the agreement, because some of the measures are contingent on events and future activity related to the Airport which at this time cannot be estimated reasonably. The enforceability of the Mitigation Agreement, and the specific actions which Massport may be required to take under it, are the subject of a lawsuit by the two community organizations which signed it as set forth in footnote K below. The Authority has organized a mediation among itself, the two groups which signed the Agreement, and six other community organizations which did not sign the Agreement, in order to achieve more unanimity and more specific cost definition. See also, discussion of agreement to stay litigation proceedings in footnote K below.

J. PAYMENTS IN LIEU OF TAXES:

The Enabling Act authorizes and directs the Authority, subject to certain standards and limitations, to enter into agreements to make annual payments in lieu of taxes to Boston, Chelsea, and Winthrop. In fiscal 1992, the Authority's obligation to Chelsea for annual in lieu of tax payments through 2012 was satisfied by a payment of $5,000,000.

In fiscal 1994, the Authority entered into an extension of and amendment to its agreement with Winthrop which extended the base in lieu of taxes payments through fiscal 1999 and added further components to such payments: a parks/related facilities portion, payable through fiscal 2011, of $150,000, to be adjusted annually based upon the percentage increase in the number of annual air passengers at Logan Airport; and a tree planting portion of $12,500, payable through fiscal 1998. In fiscal 1995, the Authority entered into a comprehensive Amended and Restated Payment-in-Lieu-of-Taxes Agreement with the City of Boston (the "Boston PILOT Agreement"), with a term commencing on March 14, 1995 and ending June 30, 2005. Pursuant to the Boston PILOT Agreement, the Authority will pay to the City the sum of $10,000,000 annually, which payment will be increased by the annual percentage change in the consumer price index, provided that such increase shall be no less than 3%, nor greater than 7%, per year. In the event that the Authority and various community groups enter into a new agreement pursuant to the mediation regarding the Mitigation Agreement (see footnote I above), the annual payment to the City of Boston may be increased by up to $1,500,000, increased annually by the aforesaid index, which sum will be held in trust by the City for the benefit of certain community groups. The Authority's Enabling Act, the Trust Agreement and the Boston PILOT Agreement provide that annual payments under the Boston PILOT Agreement may not exceed the balance of revenues remaining after deposits to the 1978 Debt Service Fund, payment of operating expenses, deposits to the 1990, 1992, 1993 and 1995 Interest and Sinking Funds and deposits to the Maintenance Reserve Fund.

K. LITIGATION:

POTENTIAL LOGAN AIRPORT SOIL AND GROUNDWATER CONTAMINATION:

In April 1991, the Massachusetts Department of Environmental Protection ("DEP") sent the Authority a Notice of Responsibility ("NOR") under M.G.L. c. 21E, Section 5(a) alleging that there have been releases of oil and hazardous materials at Logan Airport and that, as the owner of Logan Airport, the Authority is a "responsible party" liable for the costs of investigating, assessing and remediating soil and groundwater contamination at the Logan Airport site. The Authority has completed its Phase I Limited Site Investigation and its Phase II Comprehensive Site Investigation under the Massachusetts Contingency Plan (MCP). The Phase II study indicated that there are a number of geographically discrete areas of contamination at Logan, not a unified, airport-wide problem. DEP agreed with this conclusion, and in March of 1994 issued a revised NOR letter to the Authority that designated thirty separate disposal sites at Logan. DEP also sent NOR letters to a number of Logan tenants concerning contamination at one or more of the Logan sites. The Authority is in compliance with MCP with regard to all sites. The Authority expects that tenants will perform the cleanup at a number of the sites and expects to be able to recoup a substantial portion of the Authority's response costs from third parties who are responsible for the contamination. In the spring and summer of 1994 and again in March of 1996, the Authority sent letters to over thirty current and the former tenants at Logan demanding payment for past and future cleanup costs. Several tenants have already agreed to pay a portion of the Authority's costs or assume responsibility for a portion of the cleanup. It may be necessary for the Authority to initiate litigation against those responsible parties that refuse to either agree to perform remedial work or reimburse the Authority. In addition, the Authority expects to receive some of its cleanup costs from liability insurance carriers who provided coverage to the Authority. Because of the uncertainties in determining the level of cleanup that will be ultimately necessary at many of the Logan sites coupled with the difficulty in predicting the outcome of the Authority's claims against responsible parties and insurance companies, at this time, the Authority cannot reasonably predict the costs it will face to comply with the NOR letter from the Commonwealth of Massachusetts.

MITIGATION AGREEMENT:

The Authority is involved in litigation seeking to enforce a Mitigation Agreement that was signed on June 30, 1993, described in Footnote I above. The Authority is vigorously defending the lawsuit. In June 1995, a judge in the Suffolk County Superior Court declared the Agreement to be valid and enforceable at least in part. The Authority has not been ordered to take any specific actions, and intends to appeal the declaration of enforceability if necessary. In June, 1996, the Authority and the Plaintiffs agreed to stay further proceedings in the litigation for fifteen months, during which time the Authority has committed to taking certain specific actions and to enter into structured mediation with various community groups with respect to broader airport mitigation issues raised in the contested Mitigation Agreement. The Mitigation Agreement precludes any award of monetary damages. It is the Authority's judgment that the outcome of this litigation would not cause a material adverse effect on the financial condition of the Authority.

The Authority is also a defendant in a number of legal proceedings arising in the normal course of business. Management, after reviewing all actions and proceedings pending against or involving the Authority with legal counsel, believes that the aggregate liability of loss, if any, resulting from the final outcome of those proceedings will not materially affect the Authority's financial statements.

L. LEASES:

The Authority leases a major portion of its Aviation and Port Properties to various tenants. Most of these operating leases provide for periodic adjustments to rental rates. In addition, certain of the lease agreements contain provisions for contingent payments based on a specified percentage of the tenant's gross revenue. Rental income from contingent payments received under these provisions was approximately $27,936,000 and $24,630,000 for 1996 and 1995, respectively.

Minimum future rental income, excluding contingent rentals, from noncancelable operating leases as of June 30, 1996 are:

Year	Amount *(in thousands)*
1997	$ 23,668
1998	21,420
1999	17,926
2000	14,920
2001	13,872
Thereafter	230,588
Total	$ 322,394

The Authority has also entered into operating leases as the lessee. The following is a schedule by years of future minimum rental payments under noncancelable operating leases as of June 30,1996:

Year	Amount *(in thousands)*
1997	$ 16,157
1998	11,652
1999	6,742
2000	6,755
2001	5,418
Thereafter	62,770
Total	$ 109,494

Gross Revenues, Authority-wide	$296.4 million
Net Income	$ 42.0 million
LOGAN INTERNATIONAL AIRPORT, EAST BOSTON	
Total Passengers	24.7 million
Domestic	21.3 million
International	3.4 million
Total Pounds of Cargo and Mail	865.9 million
L.G. HANSCOM FIELD, BEDFORD	
Total Operations (Takeoffs/Landings)	186,948
TOBIN MEMORIAL BRIDGE	
Total Vehicle Crossings	25.9 million
THE WATERFRONT - PORT INDUSTRY FACILITIES	
MORAN CONTAINER TERMINAL, CHARLESTOWN	
Container Volume	47,353*
Salt	202,599 tons
CONLEY TERMINAL, SOUTH BOSTON	
Container Volume	31,637*
Automobile Processing	23,003
MASSACHUSETTS MARINE TERMINAL AND FORMER NAVY RECREATION PROPERTY, SOUTH BOSTON	
Automobile Processing	13,000
ARMY BASE, SOUTH BOSTON	
Cement Handled	88,558 tons
WATERFRONT PROPERTIES	
Fish Pier, South Boston	
Fish Processed, pounds	9 million
Fish Landed, pounds	5 million
BLACK FALCON CRUISE TERMINAL, SOUTH BOSTON	
Total Cruise Passengers (cruise season-1996)	69,082

*Includes "Over the Road" volumes.

WORLD TRADE CENTER BOSTON, SOUTH BOSTON

Exhibition and conference space at Commonwealth Pier leased to private developers.

CONSTITUTION PLAZA, CHARLESTOWN

Multi-purpose office and retail space at Hoosac Pier leased to private developers.

EAST BOSTON SHIPYARD, EAST BOSTON

Leased to private entity for ship repair and marine industrial development.

EQUAL OPPORTUNITY FOR ALL

In support of the basic principles of the Massachusetts Executive Orders, and in compliance with state and federal laws on affirmative action, Massport is committed to a program of effective affirmative action through institutionalized procedures that ensure equal opportunity in personnel practices, daily operations and business transactions.

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